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THE UNIVERSITY OF ALBERTA

REGIONAL DISPARITIES AND THE FEDERAL SYSTEM IN CANADA

by

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A THESIS
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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies and Research for acceptance, a thesis entitled Regional Disparities and the Federal System in Canada submitted by Patricia Gail Armstrong in partial fulfilment of the requirements for the degree of Master of Arts.

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Date: October 30, 1973

To my parents
whose moral support and encouragement
was invaluable in undertaking and
completing this thesis

ABSTRACT

Regional disparities has been an issue of concern in Canada since Confederation. Its presence has been felt in various aspects of federal-provincial relations. The question of whether governments ought to resolve the dilemma has been answered by an unequivocal "yes," however, the problem of defining the problem in an attempt to deal with it, and the methods to be used to achieve the objective, have remained unresolved. The regional social and economic differences have coloured the perspective of the various provincial governments in proposing the means of reducing the imbalances. The federal government, moreover, has found itself in the position of being responsible for reducing regional disparities, yet at the same time has had to avoid the trap of satisfying one group of provinces -- the "have-nots" -- at the risk of alienating the other group -- the "have" provinces.

A number of solutions to the problem of regional disparities have been introduced since Confederation. The original terms of settlement recognized the difficulties faced in the poorer regions by slight variations in the financial subsidy system. The use of the federal taxing and spending powers, in such policies as tax rental agreements, tax sharing agreements, equalization payments and federal programmes of economic expansion have been introduced. In each case, the reaction of the individual provinces to these policies has been determined, by and large, by their particular economic circumstances. In an effort to resolve the question once and for all, the constitutional conferences discussed the issue of regional disparities in great depth. The dilemma, however, has yet to be finally resolved.

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CHAPTER I

INTRODUCTION

When examining the issue of regional disparities in a federal system, K. C. Wheare's concept of capacity is very useful. While the desire of the units to federate must be present, "they must also be able to operate it."

> They must have the capacities to work the system they desire. Federal government is not appropriate unless the communities concerned have the capacity as well as the desire to form an independent general government and to form independent regional governments.[1]

Among the factors in determining whether the states have the capacity to form a federal system, the economic capacity of the states is of particular relevance in discussing the problem of regional disparities.

> There must be sufficient economic resources available both to regions and to general governments to make it possible for them to be financially independent.
>
> It is not, however, a question merely of what resources are available throughout the community as a whole. A great deal will depend on how these resources are divided between the general and regional governments when the federal union is established. [They must be allocated] so that each government will get what it needs.[2]

Federating units must not only agree to a division of powers, but must also, in setting out this division,

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1. K. C. Wheare, Federal Government (4th ed.; New York: Oxford University Press, 1964), p. 36.

2. Ibid., p. 52.

provide a balance of responsibilities (and subsequent expenditures) and revenues to enable the respective governments to carry out their tasks effectively. Moreover, the federal system must be able to adapt the balance of powers and revenues to the changing demands and needs of the society.

One of the most frequently recurring themes in federal-provincial relations in Canada is the issue of regional disparities. In a country the size of Canada, it is inevitable that differences in outlook and interests would exist and that these differences might bring the separate regions into conflict as each attempts to expand and develop. As each area's "working materials" -- which in essence are both its natural and human resources, and its environment -- vary, so do their capabilities and prospects. While all have developed, the rate of growth has differed and this differential expansion has led to frequent recriminations.

Despite agreement by governments at both the federal and provincial levels that the economic imbalance between the regions of Canada is far too great and must be redressed, there has been continual debate between the participants at federal-provincial conferences about what the problem really involves and how to resolve it. The opposing views expressed at these meetings reflect the political, economic, and social differences of each region. The purpose of this thesis is to study the genesis and resolution of the matter of regional disparities in the Canadian federal system to the present time.

Before one can discuss the solutions or methods used to resolve this dilemma, it is necessary to define the term as it has been used in the Canadian context. The expression "regional disparities" has become a vague catch-all phrase referring to differences among the areas of the

country both in terms of their economies and their social development. In formulating policies to deal with the resolution of these differences, it has become apparent that the size of the spatial unit is very important in determining what the policy will involve. Depending on the outcome desired, the concept of "region" may vary from situation to situation.

> It is an intellectual concept, an entity of the purposes of thought, created by the selection of certain features that are relevant to a real interest or problem, and by the disregard of all features that are considered to be irrelevant.[3]

J. E. Hodgetts describes a "region" as a spatial concept supplemented by homogeneity of culture or other factors, saying that "it emphasizes the recognition of diversity of land and culture. . . ."[4]

The pre-Confederation development of the colonies and lands now making up Canada give evidence to the necessity of a federal system in Canada.

> Every society, every nation if you will, is more or less closely integrated in accordance with its own peculiar historical, cultural, economic, political and other determinants. Each is composed of elements that feel themselves to be different from the other elements in varying degrees and that demand in varying degrees a means of self-expression. . . . If [these diversities] are grouped territorially, that is geographically, then the result may be a society that is federal.[5]

While attempts have been made to alter the developing

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3. The American Association of Geographers quoted in T. N. Brewis, Regional Economic Policies in Canada (Toronto: Macmillan Company of Canada, 1969), p. 45.

4. J. E. Hodgetts, "Regional Interests and Policy in a Federal Structure," in J. Peter Meekison, ed., Canadian Federalism: Myth or Reality? (2nd ed., Toronto: Methuen Publications, 1971), p. 343.

5. W. S. Livingston, "A Note on the Nature of Federalism," in J. Peter Meekison, ed., Canadian Federalism: Myth or Reality? (Toronto: Methuen Publications, 1968), pp. 22-23.

pattern of the separate entities now known as the ten provinces, these efforts, both prior to and after Confederation, have met with little success. Maritime Union was introduced in 1864 in Charlottetown, when the then Crown colonies met to examine the feasibility of integrating. It failed to materialize, partly due to the introduction of the alternative of a Canadian federation, and partly due to the independent spirit of the individual maritime colonies. Newfoundland managed to avoid any type of union until 1949 when it joined Confederation. Prince Edward Island entered in 1873, and even then, with some reluctance. While the proposal of a Maritime Union has been made from time to time by both inhabitants of the region and outsiders, it has been greeted with little enthusiasm or support.[6] The history of Quebec and Ontario as separate entities also pre-dates Confederation. The Quebec Act of 1774 sustained and protected French Canada. In later years, the effort to assimilate the French-Canadian culture as suggested by the Durham Report proved to be impossible, and the two societies developed within the framework of a single political system. The Crown colony of British Columbia had also developed an individual way of life by the time she entered the Canadian federation. Rupert's Land,[7] moreover, was ultimately divided into three

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6. See Marilyn Ann Fogwill, "Maritime Union and the Deutsch Report" (Unpublished M A. Thesis, Department of Political Science, University of Alberta, 1972); The Report on Maritime Union (Maritime Union Study, 1970); and W A C. Bennett's "five-province proposal, in Constitutional Conference: Proceedings, Second Meeting, Ottawa, February 10-12, 1969 (Ottawa: Queen's Printer, 1969), pp. 84-91. Although the current attempt to unite the Maritime provinces is proceeding, if Miss Fogwill's thesis is sustained, full political union will not materialize, although it is possible some kind of economic integration may take place.

7. See J.M.S. Careless, Canada: A Story of Challenge (Rev. ed.; Toronto: Macmillan Company of Canada, 1963).

provinces, thus establishing them as separate polities after their development in the late nineteenth and early twentieth centuries. They gained further legitimacy and individualism as they grew and progressed after their establishment. Once provincial boundaries were determined, they have dominated our thinking with regard to the subject of regionalism. Thus, depending on the emphasis placed on geographic, economic and cultural factors, this term has been used in three major ways, all conceptually shaped by provincial boundaries. It has been seen as a grouping of provinces (a "supra-provincial" classification), subdivisions within provinces (a "sub-provincial" approach), or simply one which equates "region" with "province."

The supra-provincial approach has been used by governments in the collection of many of their statistical records and also in examining federal-provincial relations in various studies and Royal commissions throughout the years. Usually it involves the division of Canada into five regions -- the Atlantic region (Newfoundland after 1949, Nova Scotia, New Brunswick, and Prince Edward Island), Quebec, Ontario, the Prairies (Manitoba, Saskatchewan and Alberta), and British Columbia. The basic factors justifying this classification, apart from the already mentioned factor of fixed provincial boundaries, have been historical, geographic and cultural.

The Maritime provinces, due to their historical dependence on "wood, wind, and water" for much of their economic livelihood, were seen as having developed similar concerns and needs. Thus, the Atlantic provinces have often been grouped together when discussing economic problems. Mention has already been made of attempts to unite these

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pp. 260-64,281-85, and 301-09 for a concise history of Western Canadian development.

provinces politically.

Two of the regions were classified less in accordance with geographic factors than in terms of cultural and historical differences in their development. Ontario and Quebec[8] occupy the geographic region known as the Great Canadian Shield, and share the northern side of the Saint Lawrence with its fertile lowlands. Beginning with the Constitution Act of 1791 and with the extension of the provincial boundaries to the northern extremes, their existence as two separate areas was formalized, with the Ottawa River as the major dividing line. Quebec's cultural uniqueness in Canada as the homeland of the French-Canadian populace has resulted in her developing different concerns and needs from those of Ontario, and adopting different policies to achieve her particular objectives.

The Prairie provinces have been classified as a unit chiefly due to geographic and economic considerations. Their historical development as Rupert's Land, and their common background as an agricultural region substantiated such a concept.

British Columbia, a coastal province with a rugged mountainous barrier separating her from the rest of Canada, has been regarded as a separate entity. Her geography, which is so distinct from the other parts of Canada, determined that her economic base and interests would vary as well. The historical background of the

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8. It should be noted, however, that in some cases, the two provinces have been referred to as "Central Canada," for example, by the Royal Commission on Dominion-Provincial Relations, thus emphasizing the position they hold as the centre of economic and political life in Canada. This term is also used by the Economic Council of Canada in its Fifth Annual Review: The Challenge of Growth and Change (Ottawa: Queen's Printer, 1968), p. 160, and by the Department of Regional Economic Expansion, when reporting its expenditures.

region, as mentioned previously, also contributed to the contention that British Columbia must be regarded as a unique unit.[9]

While the five-region classification has remained a viable concept in policy development and administration, especially when dealing with economic matters, the fixed provincial boundaries have proved too basic to the Canadian identity to allow change to be considered. W.A.C. Bennett, while Premier of British Columbia, did put forward in December, 1968, a proposal to re-divide Canada in terms of the five regions. His suggestion, as have separate proposals for maritime union and prairie union, has proven impossible to achieve and was not even seriously entertained.

The second classification sometimes used in Canada is a sub-provincial concept based on spatial units within provincial boundaries. Quebec, for example, while often considered one region, may be broken down into smaller areas when dealing with economic factors. The Rowell-Sirois Report, in 1939, stated:

> Quebec contains such strikingly diverse regional economies that the area cannot be satisfactorily discussed in economic terms as a unit.
>
> . . . . . .
>
> There are notably three distinct economics within the borders of Quebec [metropolitan Montreal, the area north of the Saint Lawrence River, and the areas of "pioneer subsistence agriculture"].

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9. See, for example, British Columbia's concerns over the 1907 constitutional amendments put forward by Premier McBride, Premier Hart's rejection of the Rowell-Sirois recommendations in 1941, and Premier Bennett's statements in the constitutional conferences and in his annual budget speeches. British Columbia's concerns have often varied greatly from those of the other provinces.

10. Canada, Report of the Royal Commission on Dominion-Provincial Relations, Bk. I (Reprinted; Ottawa: Queen's Printer, 1954), p. 190. Hereafter cited as the Rowell-Sirois Report, I. It should be noted, however, that the Rowell-Sirois Report generally used the five-regions approach in its study.

Each of these sub-provincial units compares with areas in other provinces; for example, metropolitan Montreal may be compared with metropolitan Toronto and Vancouver, while the Shield areas are similar to those of northern Ontario and parts of the western provinces.

The sub-provincial approach may also highlight the common features found in all provinces by emphasizing the differences between rural and urban communities. The federal government has often administered programmes on this basis; for example, the rural development policies implemented under the Agricultural and Rural Development Act (ARDA), and the Fund for Rural Economic Development (FRED). Also, programmes may be introduced to deal specifically with one region of a province, for example, the Cape Breton Development Corporation (DEVCO), and other programmes may be administered in areas selected on the basis of common characteristics in regions within each province under the Area Development Agency (ADA). In determining boundaries for local governments, census divisions, or electoral districts, provinces are not treated as homogeneous units. The problem, however, in using this approach, is determining the criteria for setting boundaries. One example of this would be the kinds of factors confronting electoral boundary commissions in drawing up federal constituencies. A further example of the sub-provincial classification would be the reference in the Official Languages Act to census divisions as the basic areas to be used for establishing bilingual districts.[11]

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11. While constituencies are expected to contain equal numbers of people, the statute establishing this method of redistributing the seats, states that: "the Commission may depart from the strict application of [this principle] in any case where (i) special geographic consideration, including in particular the sparsity, density or relative rate of growth of population of various regions of the province, the accessibility of such regions or the size or shape

The final conceptual approach is to use the term "region" synonymously with province. This particular classification uses political characteristics as its main justification. When dealing with a subject such as equalization and particularly the negotiations and ramifications involved in this area, the five-region and the sub-provincial region classifications are impossible to apply. To be sure, a shared interest at any given time may result in a number of provinces uniting in a common stand on the political scene. The political traditions in each province, however, usually result in individual actions and concerns being proposed at the negotiating table. Further, the lack of formal organization and recognition of the supra-provincial level makes it less adaptable to this study. The sub-provincial region is not really helpful due to the fact that it is not politically recognized and, even if a smaller area was organized, it would undoubtedly be dealt with at the provincial level or through federal-provincial negotiations.[12] By equating

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thereof, appear to the commission to render such a departure necessary or desirable, or (ii) any special community or diversity of interests of the inhabitants of various regions of the province appears to the commission to render such a departure necessary or desirable. . . ." "Electoral Boundaries Readjustment Act," 13 Eliz. II, c. 3, quoted in Politics: Canada (2nd ed.; Toronto: McGraw-Hill Company of Canada, 1966), ed. by Paul Fox, p. 306. The difference between these two approaches appears to relate more to the political difficulties surrounding the implementation of bilingual policies, and the use of census divisions at least ensures an accurate head count. Even here, though, the Act allows for deviation from the principle if the census division cuts through a homogeneous area.

12. It may be noted, however, that in the Department of Regional Economic Expansion (DREE), the administration of programmes may occur with consultation and cooperation between both the areas designated, the federal government and the respective provincial governments. A good example is the case of the Atlantic provinces, where the Atlantic Development Council, working on a supra-provincial level, advises the Minister of the Department, and DEVCO, which also works closely with the federal department concerning the

"region" with province, the examination of the political bargaining and negotiations that arise in the area of regional disparities and equalization within the federal system is facilitated.

Just as "region" has been used in a variety of ways in Canada, the term "regional disparities" has often been used without clear understanding of what is meant by the term. It has come to refer to the imbalance between the "have" and "have-not" provinces, usually bringing to mind a whole series of interrelated factors involved in measuring this inequality: income, unemployment, job opportunities, level of services, poor housing, et cetera. The importance of the size of the region or unit used in examining the disparities is pointed out by T. N. Brewis, who stated:

> By varying the boundaries it is possible to either reveal or conceal evidence of stress. If the Prairie provinces or the Atlantic provinces are treated as a whole, the data will conceal sharp differences at the sub-provincial level. . . . In general, the smaller the area selected, the greater will be its divergence from national averages in growth, stability and level of income. Larger regions, in contrast, tend to reflect more closely the national picture.[13]

It is assumed that the provincial premiers and the federal government will emphasize an approach which best proves to their advantage: the provincial, sub-provincial, and even the individual levels are the most common classifications presented in the bargaining area.

Another source of contention (apart from the size of the area to be dealt with) is that of the measurement of disparities. Often, the basis is in terms of per capita income and the level of productivity of the provinces.

Cape Breton area, a sub-provincial level.

13. Brewis, op. cit., p. 44.

Factors such as tax capacity, emigration-immigration figures, unemployment rates, et cetera are also used in conjunction with income and productivity when the disparity issue is being discussed. While the term regional disparities has meaning in Canada, there is a lack of consensus as to how this problem ought to be redressed. The dilemma of how one measures the disparity, which level to concentrate on, and what programme approaches best ameliorate the problem are all matters of great contention among the political participants. There is no agreement on what the problem is -- its definition is in the "eye of the beholder." This thesis will concentrate on the effects that the issue of regional disparities has had on federal-provincial relations and how the governments have attempted to reduce the disparities.

Two basic conflicts have emerged between the federal and provincial governments on the issue of regional disparities. They are federal-provincial financial relations in general, and the more specific issue of the exercise of the federal spending power to reduce regional disparities. These two themes have been the focal point of attempts to redress the inequality that exists between the regions of Canada. The solutions proposed, however, have been of an ad hoc nature, due to the inability of the political participants to agree on the basic points of what regional disparities entail and the long-range policies that ought to be implemented to reduce these disparities. In 1968, for example, the Economic Council of Canada castigated the efforts of the federal government to redress the situation, saying:

> [We] have tried to detect any conscious deliberate strategy of improving performance in the low-income regions by increasing utilization of resources or raising output per employed person. . . . [Our] appraisal fails to reveal any clear overall design for coping with the underlying problems

of regional imbalance.[14]

The varying needs of the different provinces in Canada colour their views of how to solve the problem, and in attempting to reconcile the divergent points of view, the policies have often proved to be short-lived or ineffective.

In federal theory, constituent units of a federation are equal. The British North America Act and the original financial settlement at Confederation demonstrate the different fiscal capacities of the provinces. If one assumes that the demand and need for services are approximately the same in all provinces, then some areas, where per capita personal income is lower than the national average, find themselves unable to provide services comparable to those found in wealthier areas. Thus, some of their services become sub-standard.

The "have-not" provinces are faced with a lower tax yield and subsequently lower revenues. Their attempt to provide at least an acceptable minimum of "basic" services such as education, social services and transportation facilities, means that the tax levels in these areas are usually higher to generate the necessary funds. This tax differential has been one factor leading to a continual series of negotiations with the federal government to provide them with the money necessary to fulfill their constitutional obligations. On the other hand, the wealthier provinces have contended that some upper limit to these federal transfers is necessary.

The division of powers and responsibilities between the federal and provincial governments was based on the decision that the heavy expenditure items of defence and economic development would go to the federal government.

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14. Economic Council of Canada, Fifth Annual Review: The Challenge of Growth and Change, pp. 152-53.

In 1867, with the need to develop and strengthen the new nation, this seemed to be the logical step. As the provinces had their particular interests and peculiarities to protect and develop, matters of what were then considered of a "local" nature were to be the responsibility of the provincial legislatures. Since the expenditures involved in these responsibilities were low at that time, the revenue resources given to the provincial governments were not considered of major importance; direct taxation was their principal source of revenue, and this was supplemented by monies raised from licenses, fines, and the public domain.

> Taxation in direct form [such as income taxes] was so detested in almost all the provinces but Ontario . . . that it can be assumed that there was no serious expectation that the provinces would use these powers.[15]

The federal government, on the other hand, was given the most productive revenue sources at that time -- customs and excise duties -- plus an unlimited taxing power under Section 91-3 of the British North America Act. It was conceded, however, that while the expenditures of the provinces would be relatively slight, the Dominion Government would have to either allow them some room in the field of indirect taxes, or provide subsidies of some sort to enable them to carry out their duties.

> It was clear that to have a federation at all, and [to] achieve the economic objectives of the movement, the central government had to be given exclusive authority over tariff and excise matters. On the other hand the functions left with the provincial governments would cost substantially more than all the remaining governmental taxes and revenues which then existed or could be practically considered. In these circumstances the Fathers of Confederation

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15. A. Milton Moore, J. Harvey Perry, and Donald I. Beach, The Financing of Canadian Federation: The First Hundred Years, Canadian Tax Paper No. 43 (Toronto: Canadian Tax Foundation, 1966), p. 1.

> reluctantly accepted the device of a Dominion subsidy to the provincial governments as a necessary evil. The subsidies were deliberately set at the bare minimum estimated as essential and were to remain fixed at that level.[16]

The problem of reducing the gap between limited tax room and the responsibilities assigned the provinces began to appear very early. As the public sector expanded at both levels of government and the emphasis placed on provincial responsibilities grew, the tension increased between the governments. Richard Simeon succinctly states the crux of this issue as follows:

> The allocation of taxing powers and financial resources directly affects the abilities of the governments to develop and carry out programmes. It is therefore an area of continual intergovernmental conflict.[17]

While all governments have been interested in acquiring more revenue to satisfy the increasing demands placed on them by their constituents, fiscal negotiations have been complicated by the economic imbalance between the regions of Canada. The various areas have had a variety of concerns depending upon their level of development and how much weight they carried at the bargaining table.[18] The wealthier and larger provinces, with a stronger tax base and strong representation in Ottawa, have been concerned with obtaining more tax room, thus increasing their independent action in the area of policy and implementation of

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16. Wilfrid Eggleston and C. T. Kraft, Dominion-Provincial Subsidies and Grants: A Study Prepared for the Royal Commission on Dominion-Provincial Relations (Mimeograph; Ottawa: King's Printer, 1939), p. i.

17. Richard Simeon, Federal-Provincial Diplomacy: The Making of Recent Policy in Canada (Toronto: University of Toronto Press, 1972), p. 10.

18. "When we come to look at the political relations between governments in federal systems. . . it is obvious that some units are more equal than others." R. J. May, Federalism and Fiscal Adjustment (Oxford: Clarendon Press, 1969), pp. 4-5.

programmes. The less wealthy provinces, having a more restricted tax base, have approached the negotiations with the objective of receiving monies from the federal government for the provision of services and the development of their economies. While the interests and influence of the individual provincial governments vary, the relative power of the federal government must also be taken into account. A strong federal government, in its desire to respond to its national constituency, may be inclined to thwart or help certain interests presented at the negotiating table.[19]

The relative power and influence, as well as the ability to provide persuasive arguments to support each position, is very important in determining the policy outcomes and what changes are made in the arrangements between the units of government. The problem of financial arrangements between the two levels of government involves not only the distribution of revenues between the federal and provincial governments, but also the relationship between the units of government at the regional level.

> Federations contain relatively poor units and relatively rich units. . . . The poor units favour a redistributive system of federal finance, and in order to achieve this generally support a central government with strong fiscal powers or a centralized scheme of revenue allocation subject to periodic independent review, while the rich units favour fiscal decentralization and revenue transfers, if they are necessary, based on units' relative contributions to the federal revenue.[20]

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19. "[The] nationally elected Parliament has a unique and legitimate role to play in determining the national interest, even where provincial jurisdiction is involved. [Further], . . . Parliament is the appropriate body to make grants to the provinces for the purpose of equalizing provincial public services and for the purpose of compensating the provinces for adapting their programmes to meet national as well as provincial needs." P. E. Trudeau, Federal-Provincial Grants and the Spending Power of Parliament (Ottawa: Queen's Printer, 1969), p. 34.

20. Simeon, op. cit., pp. 161-62.

The individual provinces' views of how the federal system ought to be shaped, as well as how the revenues ought to be distributed and on what basis, are influenced by the fact that there are regional disparities in Canada. The wealthier provinces, viewing the issue from the perspective that the monies being redistributed are coming largely from their coffers, usually take a position opposite to that of the poorer provinces in defining financial need. They have questioned the economic wisdom of massive transfers through equalization or other means, arguing that too much would "kill the goose that lays the golden egg."

> Though for the most part federal assistance is welcomed by those provincial governments which expect to benefit by it, there is not much enthusiasm among the others, and some provincial governments view the regional policies of Ottawa with very mixed feelings, except when they take the form of money with no strings attached. Questions concerning the criteria for assistance, the designation of areas to receive it, and the amount and form such assistance should take are matters of concern to all levels of government, and there are often sharp differences of opinion on policy.[21]

The clashing interests of the units of government in attempting to deal with regional disparities is thus a very sticky problem in federal-provincial relations.

In summary, the role of the federal government in reducing disparities has been challenged by some provinces and welcomed by others. Further, the method of distributing federal assistance has been controversial over the years. Pressures at various times have resulted in several methods of "equalizing" the imbalance between the regions. These would include unconditional grants, special subsidies, conditional grants, equalization payments, and specific federal legislation. All of these policies have been supported by

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21. Brewis, op. cit., p. 3.

some and rejected by others.

The difficulty of developing a coherent programme in a federal system while attempting to redress the imbalance between the regions is fully evident in the positions and statements of the political participants at federal-provincial meetings. The conflicting opinions must somehow be reconciled. Given the fact that the process of reconciliation has been going on since Confederation, it is clear that no final solution to the problem has been devised. Nevertheless the bargaining has been continuous and the results of these negotiations are the subject of this thesis.

There are two perspectives that one must bring to bear in analysing this problem. The first relates to the federal system and the interrelationships of the governments, which is manifested in their behaviour at federal-provincial conferences. Here the issue is muddied by the fact that in any given conference, federal government recognition of the plight of the poorer provinces must be balanced against the demands of the wealthier provinces for increased tax capacity. One cannot overlook the fact that while Quebec in an economic sense is a poor province, its attitudes are shaped more by cultural pressures than by strict economic considerations. In analysing the various fiscal agreements which have been made since Confederation, the interrelationship of these various strands cannot be overlooked.

The second perspective is simply that the federal government has, since Confederation, initiated a series of policies that have related to development. A recent manifestation of this would be the creation of the Department of Regional Economic Expansion. It is clearly impossible to isolate all federal activities designed to eliminate regional disparities. For example, one would have to examine the letting of contracts for public works and for defence, et

cetera. As such, this study will be limited to the examination of DREE and its programmes.

Finally, no study would be complete without some comment on attempts to reform the federal system itself. It would appear that the efforts to resolve the issue of regional disparities once and for all during the negotiations on constitutional reform, which took place between 1968 and 1971, illustrate the dilemmas involved in searching for the final solution. Since most of the debate surrounding the issue has been linked with financial relations, this subject is discussed first.

CHAPTER II

REGIONAL DISPARITIES IN HISTORICAL PERSPECTIVE: 1867 - 1941

The two levels of government in Canada, through negotiation, have striven to achieve the economic capacity necessary for a viable federal system. The imbalance between the various regions in terms of resources and fiscal capacity has made the process that much more complicated, for the federal government has been called on to ensure not only its own viability, but also that of the provinces.

Confederation was seen by the provinces as a method of achieving a more secure and prosperous way of life for themselves. While they saw the advantages of some kind of union, their local concerns and the desire to protect their local particularisms determined that a federal, rather than a unitary, system would be adopted. An analysis of the Confederation debates leaves no doubt that the federal government was to play the dominant role in the new nation. Although the responsibilities assigned to the provinces were not expected to be costly, due to the prevailing philosophy of laissez-faire, it was still recognized that their programmed expenditures would exceed their revenues.

The Confederation debates included discussions of how to provide the necessary revenues to the provinces. The financial negotiations presented some problems and were a factor in determining whether union would be

acceptable to the prospective members.

> The Quebec Conference found considerable difficulty in reaching a subsidy formula which would satisfy the demands of equity, and meet the wide variation in the anticipated deficits of the different provinces.[1]

The anticipated costs facing the Maritime provinces of Nova Scotia and New Brunswick were much greater than those for Ontario and Quebec. The philosophy of equity prevailed, and determined that the colonies adopt a uniform subsidy system based on per capita grants. It became evident that, due to the existence of regional differences, the political negotiations would require some departure from this principle (carefully justified), in order to achieve union.

> To arrive at a uniform subsidy that would neither give Ontario far more than it needed nor absorb an undesirably large percentage of total federal government revenues, Nova Scotia had to reduce sharply her estimate of required future expenditures.[2]

The compromise solution was a per capita subsidy of eighty cents which would be adjusted (in the cases of Nova Scotia and New Brunswick only) as the population increased to a maximum of 400,000.

In addition to the population subsidy, which by itself would not yield the necessary revenues to any of the provinces, another transfer was agreed upon at the London Conference -- a grant in support of government, based on the relative size of each region's population.

The federal government was to take over the debts of the provinces, and the principle of equity

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1. Canada, Report of the Royal Commission on Dominion-Provincial Relations, Bk. I (Ottawa: Queen's Printer, 1954), p. 45. Hereafter cited as the Rowell-Sirois Report, I.

2. A. Milton Moore, J. Harvey Perry and Donald I. Beach, The Financing of Canadian Federation: The First Hundred Years, Canadian Tax Paper No. 43 (Toronto: Canadian Tax Foundation, 1966), p. 2.

determined that the differences in provincial debts be taken into consideration. Thus, a system of debt allowances was worked out. An allowable debt of $25 per capita for the provinces of Ontario, Quebec, and Nova Scotia, and a special rate of $27.77 for New Brunswick was established. From this amount, the actual debt assumed by the federal government was subtracted. Interest on the difference would be paid either to the provinces or to the federal government, depending on whether the assumed debt was more or less than the allowable one.

The negotiations continued, and throughout the discussions, it became apparent that the provinces could not be considered equal -- some provinces were in fact poorer than others. This difference would have to be taken into account.

> After cutting down . . . the local expenditures to the lowest mark, it was found that New Brunswick . . . could not possibly carry on its local government with the sum per head that would suffice for all the rest. New Brunswick imperatively required $63,000 per annum beyond her share, and we had either to find that sum for her or give up the hope of union.[3]

Rather than increase the transfers to all provinces, an unacceptable alternative from the point of view of the Fathers, New Brunswick was granted a special subsidy of $63,000 per annum for a ten-year period. Table II-1 shows the Confederation settlement of 1867.

The attempt to reconcile the principle of equity and the disparate needs of the governments had, in 1867, resulted in ad hoc decisions, with compromises based on political expediency. Once the agreement had been reached,

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3. The Hon. Mr. George Brown, in Canada, Legislature, Parliamentary Debates on the Subject of the Confederation of the British North American Provinces, Provincial Parliament of Canada, Eighth Parliament, Third Session (Quebec: Parliamentary Printers, 1865. Photographic Reproduction, Ottawa: King's Printer, 1951), p. 93.

Table II-1

Annual Subsidies to Provinces at Confederation

Province	Thousands of Dollars			
	Population Subsidy	Grant in Support of Government	Special Grants	Total
Ontario	1,116	80	-	1,196
Quebec	890	70	-	960
Nova Scotia	264	60	-	324
New Brunswick	202	50	63	315
TOTALS	2,472	260	63	2,795

Source: Wilfrid Eggleston and C. T. Kraft, Dominion-Provincial Subsidies and Grants, A Study Prepared for the Royal Commission on Dominion-Provincial Relations (Ottawa: King's Printer, 1939), p. 6.

however, the Fathers had intended that the terms be considered final.

> Let this too ever be kept in mind that the [approx.] $2,630,000 to be distributed to the local governments from the federal chest is to be in full and final extinguishment of all claims hereafter for local purposes; and that if this from any cause does not suffice, the local governments must supply all deficiencies from direct tax on their own localities.[4]

The Confederation settlement, then, was based on a number of principles which were to affect the area of dominion-provincial relations from that time on. First, it was recognized that the federal government had some responsibility for providing assistance to the provinces. Second, while the subsidy system was intended to be uniform for all provinces, the federal government was forced to recognize the existence of differences between the regions, which resulted in the granting of a special subsidy to New Brunswick. Third, within a few years of Con-

4. Brown, op. cit., p. 94.

Table II-2

Annual Subsidies to Provinces at Their Entry Into Confederation ($000)

Province	Population Subsidy	Grant in Support of Government	Special Grants	Land Grants	Buildings Grants	Total
MAN. (1870)	13.6	30	-	-	-	43.6
B.C. (1871)	48.0	35	-	100	-	183.0
P.E.I. (1873)	75.2	30	-	45	-	150.2
ALTA. SASK. (1905)	200.0	50	-	375	93.7	718.5
NFLD.* (1949)	260.0	180	1,100			1,540.0

Source: Canada, Dominion Subsidies to Provinces, Including Other Transfers. A Reference Book for the Dominion-Provincial Conference on Reconstruction (1945), pp. 9-10; and Canada, Parliament, "Terms of Union of Newfoundland with Canada," Statutes of Canada, 1949, Ch. 1.

*The terms of settlement included "an additional annual subsidy of $1,100,000 payable for the like purposes as the various fixed annual allowances and subsidies provided by statutes of the Parliament of Canada from time to time for the Provinces of Nova Scotia, New Brunswick, and Prince Edward Island. . . ." "Terms of Union of Newfoundland with Canada," s. 29.

federation, the principle that the terms were to be considered a final settlement was to become meaningless. In 1869, Nova Scotia received special consideration due to her inability to exist with the original terms of settlement, and achieved equality with New Brunswick. It became evident, moreover, that a change in the bargain with one province led to other provinces renegotiating their terms of settlement and demanding equal consideration for their particular problems and needs.

With the expansion of the nation and the entrance into Confederation of new members, specific terms of settlement for them had to be negotiated. Where possible, the original subsidy system was to be applied; however, the demand for special consideration resulted in different terms of union for each new member. Table II-2 shows the final results of each province's financial negotiations with the Dominion.

In each case, special consideration had to be given to the particular conditions facing each area. But it must be emphasized that political expediency was a very important factor in determining the outcome as well. The previous political existence of British Columbia, Prince Edward Island and Newfoundland resulted in strong bargaining positions. Manitoba, Alberta and Saskatchewan were created by the federal government and the regional delegates had no such political base on which to rest their claims.

Manitoba was created prematurely in 1870 due to the Riel rebellion. The delegates representing the colonies were in a poor bargaining position, which was reflected in their terms of settlement. The province's small population and her lack of a financial base resulted in the necessity of overestimating her population in order to provide a bare minimum of funds for the new province. Unlike the four original provinces, Manitoba was not given jurisdiction over the public domain and her dependence on federal funds was even greater than it would ordinarily have been. While the total sum transferred to the province was generous on a per capita basis, it was inadequate in light of the lack of other revenue sources which the province could exploit and the great costs that were anticipated in the setting up of the new government.[5] The province attempted to

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5. Chester Martin,"'Dominion Lands' Policy," in History of Prairie Settlement and "Dominion Lands" Policy, Vol. II of Canadian Frontiers of Settlement, ed. by W. A. Mackintosh

renegotiate the settlement very shortly after the agreement was signed.

British Columbia's previous existence as a polity strengthened her bargaining position. Once again, the negotiations had to take into account the small population of the area, and a new type of grant was used to provide the required funds to the new province. Even by generously estimating the region's population, the subsidy system fell short of the region's revenue needs by $100,000. Consequently the federal government proposed that British Columbia ". . . convey in trust . . . a belt of land twenty miles wide in return for an annual payment of $100,000."[6]

As in the case of British Columbia, Prince Edward Island was in a relatively strong bargaining position. Special consideration of regional particularisms again resulted in a modification of the terms of settlement. The per capita debt of the Island was $41.00: if the $27.77 rate had been applied in calculating the debt allowance, the Island would have been required to pay to the Dominion over $60,000 per annum in interest. A new rate of $50.00 was introduced. Another unique problem taken into consideration was the fact that two-fifths of Prince Edward Island's lands were held in absentia by English owners. A "lands subsidy" was provided in order to buy back the alienated lands.

The rapid development of the Northwest in the last part of the nineteenth and early part of the twentieth centuries resulted in the creation of Alberta and Saskatchewan in 1905. Again, the weak bargaining position of

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and W.L.G. Joerg (Toronto: The Macmillan Company of Canada, 1938), pp. 474-75.

6. D. G. Creighton, British North America at Confederation, A Study Prepared for the Royal Commission on Dominion-Provincial Relations (Ottawa: King's Printer, 1939), p. 90.

the area was to result in the alienation of the public domain, as had been the case in Manitoba. The uniform subsidy system was applied (the population subsidy and the grant in support of government, as well as the debt allowance rate of $27.77). Unlike Manitoba, they received a grant in lieu of lands, and a "buildings" subsidy for a five-year period which was designed to aid the new provinces in the setting up of their governments.

In the case of Newfoundland, generous terms of union were worked out. Moreover, unlike previous instances, the terms were considered interim only, for the federal government promised a Royal commission would be set up to determine the final terms between the Dominion and the new province.[7]

A number of observations may be made concerning the preceding summary of the terms of settlement. First, the terms were all settled on an ad hoc basis: the federal government wished to avoid precedent-setting special grants to the provinces, and thus attempted as much as possible to apply the standard subsidy system as set out at Confederation. Second, the provinces all pleaded that their special problems needed special consideration and appropriately

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7. "In view of the difficulty of predicting with sufficient accuracy the financial consequences to Newfoundland of becoming a province of Canada, the Government of Canada will appoint a Royal Commission within eight years from the date of Union to review the financial position of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island," "Terms of Union of Newfoundland with Canada," Acts of Parliament, 13 Geo. VI, 1949, Ch. I, S. 29. The "final settlement" of financial terms came in 1964 with an additional subsidy of $8,000,000 per annum.

unique terms were necessary. Third, as the subsidy system was not rigidly applied to each confederating member, neither were the terms of settlement considered final. As new provinces entered and special provisions were made, other provinces approached the federal government demanding equal consideration.

The financial renegotiations between the two levels of government, as has been indicated, began shortly after the Act had been passed. Despite the reluctance on the part of the federal government to dish out increasing amounts of money to the provinces, political pressures resulted in the acknowledgement that regional differences would often lead to the reconsideration of the financial terms. Where possible, however, the federal government attempted to justify the increased funds in such a way so as to fend off any attempts by other provinces to receive similar "special treatment."

In 1873, for example, the apportionment of the debt between the provinces of Quebec and Ontario was challenged by Quebec. Hoping to avoid a confrontation with Quebec, the central government assumed the total excess debt, claiming that it was correcting "an error of the Confederation agreement," and was "restoring the harmony between the two provinces."[8] To appease the other provinces, the Dominion paid extra sums to them, save for Prince Edward Island who had received the special debt allowance rate of $50 per head that same year.

The Province of Manitoba, through continual pressure, managed to alter her financial arrangements a

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8. Wilfrid Eggleston and C. T. Kraft, Dominion-Provincial Subsidies and Grants, A Study Prepared for the Royal Commission on Dominion-Provincial Relations (Mimeograph; Ottawa: King's Printer, 1939), p. 16.

number of times, largely because of her obvious dependence on and insufficiency of federal funds. Thus, in the years 1869, 1876, 1882, and 1885, the federal government provided increases in subsidies, a lands subsidy to compensate for their lack of control of the public domain, and temporary grants. While other provinces also pleaded for special consideration, the federal government often refused to entertain these claims.

As the years went by, the provinces, in varying degrees, began to realize with increasing anxiety the "financial straitjacket" that Confederation had placed them in. The pressing financial difficulties of the provinces resulted in the first Interprovincial Conference, held in 1887, to discuss financial and other constitutional questions concerning the federal system. The meeting was attended by the leaders and delegates from the provinces of Ontario, Quebec, Nova Scotia and Manitoba. Ontario, a province relatively well-off, was less interested in the financial issue than in limiting the powers of the federal government so it could not interfere in the province's affairs. While the federal government refused to recognize the legitimacy of that Conference, the provinces continued to press for the amendments. Another Interprovincial Conference was convened in 1902; however it too met with no success.

In 1906, a Dominion-Provincial Conference was called by Prime Minister Laurier to discuss the subsidy system. The federal government requested that any special claims be presented at that time. British Columbia immediately stepped forward, asking for the "appointment of a special commission to consider the claims of [that] province arising out of its geographical situation."[9]

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9. J. A. Maxwell, Federal Subsidies to the Provincial Governments in Canada, Harvard Economic Studies, Vol. LVI

Unwilling to cross with Premier McBride, yet fearful that the granting of the commission would lead to an outbreak of special claims, Laurier asked the Conference to decide the course of action.

> The conference acted upon Sir Wilfrid's proposals. It declared that a commission was "inadvisable;" and it expressed the opinion that, "in view of the large area, geographical position and very exceptional physical features of the province of British Columbia, it is the opinion of the conference that the said province should receive" an extra subsidy of $100,000 a year for ten years.[10]

British Columbia withdrew from the Conference in anger. The special grant, however, was included in the new subsidy arrangements which also provided: "(1) that the grants for the support of government should be approximately trebled; and (2) that the limit of population, on which 80 cents per capita subsidy was to be paid, should be raised."[11]

Despite attempts by Laurier to ensure that these new financial terms would be considered more permanent than the original terms had been, the new settlement merely whetted the appetite of the provinces, and shortly thereafter, pleas emanated from British Columbia for better terms. Manitoba, upset at the generous settlement given Alberta and Saskatchewan, also pressed for better terms.

> The creation of Saskatchewan and Alberta in 1905 settled the question of westward extension. It also raised in an acute form the issue of the enlargement of Manitoba. . . . Why, [Roblin] asked, should these <u>parvenu</u> provinces be more than three times larger in size, why should they have larger subsidies than the pioneer province of the West?[12]

In response, Manitoba's boundaries were extended northward

(Cambridge: Harvard University Press, 1937), p. 111.

10. Maxwell, <u>op. cit.</u>, p. 111.

11. <u>Ibid.</u>, p. 112.

12. <u>Ibid.</u>, p. 129.

(along with those of Ontario and Quebec) to their present limits. Moreover, she received a new grant in lieu of land and a compensatory payment for the period from 1905 to 1912 when she had not received compensation.

The federal government also acknowledged "special need" in the case of Prince Edward Island. A delegation had been sent to Ottawa to present the claims of the province which must be redressed -- the lack of adequate communication with the mainland, the lack of a public domain, and the inadequacy of federal spending in the province. An additional subsidy of $100,000 was announced.

As may be predicted, the special "attention" given to these three provinces, soon led other provinces to consider the time ripe for new demands on the federal government.

An Inter-provincial Conference was called in 1913, and the "naked claim for better terms was put forward bluntly and without shame. It was assumed that the federal government ought properly to act as a collector of revenue for the provincial governments."[13] While the proposals were not accepted at that time by the federal government, as the 1907 resolutions had just been in effect for six years, Sir Robert Borden stated that the federal government ought to discuss the revision of the subsidies on a regular basis.

World War I and the heavy federal expenditures halted any further demands on the federal treasury for a few years; however, the Maritime provinces were particularly adamant about reviving the issue in the 1920's. The settlement in 1912 which had extended the boundaries of the provinces of Manitoba, Ontario and Quebec, irked the maritimes. They had, they argued, contributed to the

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13. Maxwell, op. cit., p. 134.

purchase of the West. With the transfer of the domain to the provinces, the maritimes felt that they were justified in demanding monetary compensation,[14] Moreover, unlike many other parts of Canada which had been expanding tremendously in their economic development, the maritimes were continually suffering from economic stagnation. Increasingly, pressures were exerted on the federal government to redress some of these grievances.

The use of Royal commissions to study and make recommendations on regional claims began early in Canadian history. Chiefly, they were set up by the federal government to provide a means of showing concern for the regional feelings of inequity, without really promising to do anything about it. In 1912, for example, Sir Robert Borden announced a Royal commission to study the claims of British Columbia. It never got off the ground because war broke out before all the members had been chosen. In 1926, Prime Minister King, in response to Maritime unrest, established a Royal commission to examine Maritime Claims. The Duncan Commission supported the justness of these regional grievances and recommended a great increase in

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14. Interestingly enough, while the Maritime claims for compensation with regard to the 1912 boundary readjustments were supposedly settled with the appointment of the Duncan Commission, the issue was raised in 1956 by Mr. J. A. MacLean (Queen's) in the House of Commons: "Recently a proposal was made at the inter-provincial conference with regard to the necessity of reviewing the question of subsidies to the maritimes in lieu of northern land. . . . [If] the proposal were followed. . . there would be a considerable increase." He went on to note the "great natural wealth" of the northern lands given to the provinces of Ontario, Quebec, and Manitoba. "It is the riches of these northern areas that are now keeping the cash registers of the industrial centres of Ontario and Quebec ringing." He added further: "Most maritimers take the attitude that the larger provinces and the dominion as such believe in the principle of share and share alike. The only catch is that when the shares are being dealt out, maritimers feel the assets go to the larger provinces and the liabilities go to the maritimes." Canada, House of Commons, Debates, 22nd Parliament, Third Session, Vol. III, April 12, 1956,

the subsidies as well as a special freight rate provision for the provinces. This Commission indicated the responsibility of the federal government to provide a reasonable balance among the regions of Canada.

> It is not possible in such an undertaking as the making of Canada, with its geographical and physical conditions, and its variety of settlement and development, to maintain always an accurate balance, apportioning to every section of this extensive country the exact quality of benefit and quantity of advantage which would be theoretically and justly desirable. But reasonable balance is within accomplishment if there be periodic stocktaking. We venture to regard the present occasion as such a period of stocktaking. . . .
> . . . . . .
> The outstanding fact, it seems to us, is that the Maritime Provinces have not prospered and developed, either in population, or in commercial, industrial and rural enterprise, as fully as other portions of Canada.[15]

When the question of Maritime claims was raised at the Dominion-Provincial Conference of 1927, the Prairie provinces supported these claims and in return, received support for their contention that they continue to receive the subsidy in lieu of lands when the natural resources were transferred to the provinces. While the Maritimes appreciated the findings of the Duncan Commission, they were not satisfied with its limited scope of inquiry. Accordingly, Nova Scotia, in 1934, set up its own Royal commission to inquire into the economic position of the Province in Confederation. The Jones Report concentrated on the harmful effects of Dominion policies in the area of economic development. In their study, the commissioners noted the forces which led to the disparate growth in the

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pp. 2872, 2873 and 2875.

15. Canada, Report of the Royal Commission on Maritime Claims (Ottawa: King's Printer, 1937), p. 9. Hereafter cited as the Duncan Report.

various areas of Canada. Transportation was a chief factor, but it was by no means the only one explaining Canada's uneven economic development. "Given adequate transport, the location of industries is determined by the interplay of three factors -- raw materials, power, and the market."[16] They examined the tariff policies of the Dominion and the natural advantages of the central provinces in economic development. They believed that the position of Nova Scotia was not inevitable, and that the federal government could redress the situation. The factors leading to the disparate position of the Province were: (1) tariff policy; (2) transportation policy; and (3) "highly centralized and standardized industries operating under the protection of the first two."[17] Because these federal policies had resulted in economic stagnation of the maritime province and had aided the development of the central provinces, the Jones Commission argued that the Dominion government had a responsibility, an obligation to provide funds on the basis of need to the various provincial governments. In order to provide an adequate standard of living in Nova Scotia without resorting to unfair tax burdens, the province needed federal assistance.[18]

The use of Royal commissions had become in vogue during the twenties and thirties and three more Royal commissions were established to assess the claims of the governments of Alberta, Saskatchewan, and Manitoba for compensation for the period that the federal government had control of their public domain. Moreover, British Columbia had shown a great interest in the possible transfer of resources to the prairies, and had approached the

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16. Nova Scotia, Report of the Royal Commission: Provincial Economic Inquiry (Halifax: King's Printer, 1934), p. 37. Hereafter cited as the Jones Report.

17. Ibid., p. 20. 18. Ibid., p. 74.

federal government on a similar matter. As previously mentioned, British Columbia had transferred a belt of land to the federal government in return for $100,000 per year. Now, they wished the lands returned to provincial control.

> The federal government, after it had given concessions to the Maritimes and was preparing to give them to the prairie provinces, could hardly refuse consideration to British Columbia. In 1927 a royal commission of one member, Mr. W. M. Martin . . . was appointed to consider whether the railway belt and the Peace River Block should be reconveyed to British Columbia.[19]

While British Columbia subsequently received both her lands and the continuation of her subsidy, she again approached the federal government in 1934. "The province was still large in area and mountainous in topography; it professed to pay a disproportionately large amount in taxes to the federal treasury and to receive a disproportionately small amount as subsidies."[20] As the federal government was conceding points to the maritimes, the federal government felt obligated to accede to the western province. An interim grant to British Columbia of $750,000 was announced.

By the mid-thirties, the federal government had found itself in a position of being forced to continually give in to regional pressures for special grants in consideration of particular concerns, with no guarantee that the process would ever be arrested. The heterogeneity of the provinces made it inevitable that there would be differences. If the federal government was to continually make allowances for these special concerns, the horizons were limitless. The federal treasury was not. The concessions were ad hoc arrangements with no purpose in mind

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19. Maxwell, op. cit., p. 176.

20. Ibid., p. 178.

other than satisfying one region after another as their financial conditions proved unbearable.

The federal government's subsidy system was forced to expand radically due to the deepening economic crisis at this time.

> The nature and course of the depression in Canada inevitably involved large inter-regional and inter-governmental transfers of income by the Federal Government. These transfers took several forms -- assistance to a few severely depressed industries, assistance to all provincial governments to help in financing costs of relief, and special assistance to the most hard-pressed provincial governments to prevent defaults of debt and enable continuation of essential services.[21]

The division of powers in the British North America Act and subsequent judicial interpretation had thrust the responsibility for social services (including unemployment relief) on the provincial and municipal governments. Their restricted taxing powers had not been able to match the rapidly rising expenditures in attempting to cope with the depression. The provinces were forced to spend vast sums of money in relief programmes, and the debts in all provinces became more and more burdensome as time wore on.

While this was true of all provincial governments, the burden of the depression fell more heavily on some areas than on others. The prairies, as an export region, was hardest hit, with Saskatchewan receiving the brunt of the depression.

> If the repercussions upon other sections of the Dominion were widespread and severe, the conditions in Saskatchewan were nothing short of disastrous. Economically this area was the most vulnerable in Canada. No other province was so completely dependent upon the fluctuations in the export market. Nowhere was production so dependent upon the vagaries of the climate.[22]

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21. Rowell-Sirois Report, I, p. 160. 22. Ibid.,p.169.

The regional impact was aggravated by the imbalance in tax capacity of various areas under their taxing powers.

> The Canadian economy is made up of a number of diverse and highly specialized areas. Partly as a result of the specialized character of the resources and industries of the individual regions, and partly as a result of national policies, these regions are closely related and integrated and are, to an important extent, dependent on each other. But although these regions may be economically complementary, and the existence of each vital to the welfare of others, it does not follow that the income resulting from their joint effort is regionally distributed. On the contrary, it is a distinguishing feature of the Canadian economy . . . that a very large proportion of the surplus -- and taxable -- income of the country is concentrated in a few specially favoured areas.[23]

Thus, the effect of the depression could be analyzed on a regional basis. "The harder any particular area is hit, and the more impoverished its people, the greater are the burdens which that area must carry."[24] Since some provinces were hit harder than others, some regions found they could not provide the minimal level of "essential" services, such as education, health, and welfare.

The lack of leadership on the part of the federal government and the inability of any government to provide a rational method for dealing with the situation further exacerbated the situation.

> [There] was no co-ordinated or carefully planned relief policies in Canada during the depression. It was a policy of expediency which failed either to promote maximum welfare under the circumstances or to safeguard the financial position of the various governments. The Dominion, from whom alone leadership could have come, was mainly concerned with steering a day-to-day course between

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23. Rowell-Sirois Report, II, p. 77.

24. Ibid., p. 78.

> insisting on the constitutional responsibility of the provinces, and the necessity of preventing widespread starvation.[25]

The provinces lacked the financial resources to develop adequate policies, whereas the federal government lacked the jurisdiction for the administration of relief. Thus neither level could provide the co-ordination needed to deal effectively with the depression.

The growing pressures on all government arising from the inability to deal with the depression led, in 1937, to the setting up of the Royal Commission on Dominion-Provincial Relations. The necessity of examining the whole area of federal-provincial relations is reflected in the Commission's broad terms of reference.

> The operative clauses of the Order in Council . . . instructed the Commission to make "a reexamination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years."[26]

With this momentous task before them, the Commissioners began an exhaustive study of the history of federal-provincial relations, and from their findings, made recommendations designed to assure the viability of both levels of government in light of the changing conditions facing the nation.

The Commissioners' concept of federalism had a great influence on their recommendations. While they felt that federalism had its characteristic drawbacks,[27] the Commissioners believed that federalism was the political

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25. Rowell-Sirois Report, I, pp. 172-73.

26. Ibid., p. 13. See also the specific terms of reference, pp. 9-10.

27. The two they cited were: (1) rigidity and inelasticity in the division of powers, and (2) lack of the means of co-operation between autonomous governments in matters of common interest. Rowell-Sirois Report, II, p. 68.

system most suited to Canada.

> A population of common origin and traditions, deeply habituated to think alike on fundamental issues, may be readily able to maintain the agreement necessary for collective action affecting the whole range of community life. Canada lacks that homogeneity and this, in turn, limits the extent of collective endeavour which can be effectively organized under Dominion control. This is why Canada is a federal state and must remain so.[28]

They believed that the success of the Canadian federation rested on the capacity of both levels of government to effectively finance their respective levels of jurisdiction. Provincial autonomy, therefore, did not rest on the inviolability of the division of powers as set out in the British North America Act, but rather on the balancing of expenditures and revenues. It rested on the provision for financial security, which would allow the provinces to deal with their particularisms as they deemed necessary.[29]

Aware of the tendency among countries all over the world to resort to increasing centralization when attempting to promote some uniformity and harmony in the administration of programmes, the Commissioners urged co-operation in the interests of maintaining provincial autonomy.

> In so far as matters requiring uniformity of treatment, or concerted action can be dealt with by co-operation among provinces, or between the Dominion and the provinces, the case for additional centralization to promote efficiency or uniformity will not arise.[30]

While the Commissioners supported uniformity through co-operation, they cautioned that any attempt to provide

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28. Rowell-Sirois Report, I, p. 97.

29. Rowell-Sirois Report, II, p. 13.

30. Ibid., p. 70.

national schemes in the general area of social services (and presumably other areas of provincial jurisdiction as well), would be virtually impossible due to regional differences. Thus, while the provinces must be in the financial position to provide a minimum standard of services, they must also be free to respond to their particular needs in setting up these services.[31]

The Commission was very much aware of the viability of the concept of regionalism in the Canadian federal system. And, while in principle they supported the concept as being basic to the federal system, the growing evidence of disparities between the regions in Canada was of great concern to them.

> Regionalism reflected differences in interests and opportunities which became quite pronounced in different parts of Canada. The various regions had always differed in resources and geographical advantages. These promoted economic specialization and made for disparities in the fortunes of separate areas.[32]

Concerned with the evidence of frustration and the feelings of injustice arising from these disparities, the Commissioners emphasized the federal government's obligation to ameliorate these feelings, which threatened to undermine the sense of national unity so important to the maintenance of the federal system. This responsibility was even more pronounced due to the negative effects that the national policies often had on various regions. "The national policies [of tariff and transportation]. . . played continuously on the regional disparities, sometimes counteracting, but often exaggerating, them."[33] As a result, the recommendations presented by the Commission

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31. Rowell-Sirois Report, II, p. 127.
32. Rowell-Sirois Report, I, p. 113.
33. Ibid., p. 113.

centred around the changes necessary not only to ensure the viability of both the federal and provincial governments, but also to reduce the imbalance between the regions of the country.

The Commission's attempts to ensure the preservation of the federal system rested on the maintenance of the possibly conflicting principles of provincial autonomy and the enhancement of national unity. Regional disparities in terms of economic growth and incomes had a negative effect on both of these factors. National unity would be endangered

> . . . if the citizens of distressed provinces come to feel that their interests are completely disregarded by their more prosperous neighbours, and that those who have been their full partners in better times now tell them they must get along as best they can and accept inferior educational and social services.[34]

A minimum standard of the so-called "essential" services had to be provided across Canada, even though they were to remain under provincial jurisdiction. In order to provide the funds necessary to all provincial governments to supply these services, the Dominion would be responsible for redistributing, to some degree, the wealth of the nation.

Apart from the Commission's concerns for provincial autonomy, they were also to deal with the reallocation of responsibilities, if they thought it necessary. The expansion of certain responsibilities to the point where only the Dominion seemed capable of handling them, resulted in the proposals containing a few fundamental changes.

> [We] shall have to recommend that certain functions now under the jurisdiction of the provinces should be allocated to the Dominion on grounds of the need for uniformity throughout Canada, or of the economy incidental to unified administration, or of the

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34. Rowell-Sirois Report, II, p. 79.

> unequal financial ability of the provinces to perform them.[35]

Thus, after elaborate study and rational justifications for their recommendations, they proceeded to present two plans of action designed to revamp the federal-provincial financial relationship in Canada.

While two plans were drawn up for the perusal of the federal government, the Commission emphasized that the first one was the most effective. The objectives outlined by the preceding analysis would be met by the Dominion assuming jurisdiction over the relief of "unemployed employables" and provincial debts. These measures were designed not only to provide for the effective handling of the unemployment relief programme, but also to reduce the heavy financial burdens of the provinces. In order to provide the federal government with the financial means to assume these responsibilities, the federal government would become the sole authority to tax in the areas of personal and corporate income taxes and succession duties. This step would also provide a means for the redistribution of wealth from wealthier to poorer areas, as proposed by the Commission. Finally, to ensure that all provinces had the capability to "provide adequate social, educational and developmental services," "without resort to heavier taxation than the Canadian average," the federal government would provide an annual National Adjustment Grant to those provinces whose projected expenditures for essential services would exceed their provincial revenues, set at the national average.[36] Table II-3 shows the application of the National Adjustment Grant to the provinces according to the Commission's calculations.

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35. Rowell-Sirois Report, II, p. 13.

36. Ibid., p. 86.

Table II-3

Application of the National Adjustment Grant
(Calculated by the Rowell-Sirois Commission)

Province	National Adjustment Grant
Prince Edward Island	$ 750,000
Nova Scotia	800,000
New Brunswick	1,500,000
Quebec	8,000,000
Ontario	---
Manitoba	2,100,000
Saskatchewan*	$ 1,750,000
Alberta	---
British Columbia	---

* Saskatchewan, the province most severely affected by the Depression, was also to receive an emergency grant of $4,000,000 in 1937 and 1938, and $2,000,000 in 1939 with the provision that it would be subject to annual review and would disappear with the return of normalcy. The years and the grant were calculated as illustrations only by the Commissioners. Rowell-Sirois Report, II, p. 102.

Source: Rowell-Sirois Report, II, pp. 87-108.

With the Report of the Royal Commission tabled in Parliament in 1940, the provinces and the Dominion proceeded to examine its recommendations in light of the effects the proposals would have on each government. After an inspection of the plan, Prime Minister Mackenzie King wrote to the Premiers inviting them to discuss the implementation of the Report at a Federal-Provincial Conference in January of 1941.

> It is the view of the government that adoption of the Commission's recommendations is necessary to put our country in a position to pursue a policy which will achieve the maximum war effort and, at the same time, to lay a sound foundation for post-war reconstruction. For these reasons, we should

> like to avail ourselves of the earliest opportunity to place our views before the Provinces, and to discuss with them the recommendations of the Commission.[37]

As one may have predicted, the governments split on their receptivity of the Report, depending on whether or not they felt they gained or lost. The replies to the Prime Minister's letter were an ominous precursor to the tone of the meeting.

As can be seen from Table II-3, six provinces were to receive the National Adjustment Grants, and three were not. The three not benefitting from these unconditional grants were British Columbia, Alberta, and Ontario. The letters in response to King's invitation ranged in tone from delight to non-committance, to hostility. As examples, note the following statements: (From Premier Patterson of Saskatchewan):

> I beg to acknowledge your letter of the 2nd and may assure you that I am very greatly pleased to learn that your government intends to take early action with respect to the report. . . .

(From Premier Aberhart of Alberta):

> Your letter of November 2nd reached me yesterday and I have noted its contents very carefully.

(From Premier Hepburn of Ontario):

> I was hopeful that a discussion of this problem could be delayed until after the war so that there could be no possibility of any controversial issue arising which might impair national unity and the effective prosecution of the war.[38]

The Dominion-Provincial Conference convened on January 14, 1941, and it became apparent that, while all

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37. W. L. Mackenzie King, Prime Minister of Canada, "Copy of Letter Sent by the Prime Minister, November 2, 1940," in Dominion-Provincial Conference, Tuesday, January 14, 1941 and Wednesday, January 15, 1941 (Ottawa: King's Printer, 1941), p. vi.

38. "Copy of Letters Sent by the Premiers of the Nine Provinces of Canada in Reply to the Prime Minister," ibid., pp. ix-x.

the provinces were interested in discussing methods of ameliorating the problems of federal-provincial financial relations, it was by no means unanimous that these talks be based on the Rowell-Sirois Report. The federal government had set up the agenda with the purpose of discussing the recommendations and making any necessary changes to secure agreement.

> We readily recognize that the recommendations on all subjects may not be immediately acceptable. They must be considered on their merits in relation to the obligations of the provinces as well as those of the dominion.
>
> If we do not approach the conference with our minds closed, much less has the federal government any thought of trying to impose the recommendations upon the provinces. It is one thing, however, to try to force a solution, and quite another to do our utmost to find one. What we seek is the largest possible measure of common agreement to enable the federal and provincial governments so to cooperate as to make our Canadian system work with less friction and greater efficiency for the benefit of the people of Canada in all the provinces.[39]

Recognition on the part of the Dominion government that the recommendations would not be acceptable _in toto_ to all provinces was confirmed by the opening addresses of the premiers. While the provinces of Quebec, Nova Scotia, New Brunswick and Prince Edward Island were not prepared to accept the implementation of the recommendations without some revision, they were eager to negotiate with the aim of achieving a satisfactory compromise based on the Report. Manitoba and Saskatchewan pressed for the adoption of the recommendations without, it seems, being concerned about any basic changes to them. Thus, six of the provinces indicated a willingness to continue the meetings as the federal government had intended.

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39. Mackenzie King, "Opening Address by the Prime Minister," _ibid_., p. 5.

Such was not the case with regard to the remaining three provinces. Premier Hepburn, who had unsuccessfully attempted to delay the conference until after the war, was the first to attack the report.

> [I believe] that I did a public service in calling attention to the act of throwing into the arena of discussion a highly contentious document at a time when people who love the Empire and all it stands for are concerned with one thing, and one thing alone -- the successful prosecution of a victorious war. . . .
>
> . . . . . .
>
> Let us guard carefully for fear a similar frankenstein [propaganda by a "centrally-controlled power"] does not appear in our midst. In the first flush of public reaction the propaganda machine made it appear that to implement this document would make the provinces richer and, at the same time, make the dominion richer by the simple process of transferring debts and revenues to the central government.
>
> Inasmuch as there are only two parties to the deal, surely one need only to have an elementary knowledge of economics to appreciate the fact that both cannot win.[40]

In other words, Ontario was afraid that the recommendations would make the provinces poorer, and was especially concerned that she herself would suffer.

British Columbia, too, opposed the report.

> Each of the [five economic and social] units is distinctive, and there is nothing to be gained and much to be lost in attempting to bring them to a common level. Everyone desires to see Canada strong and united, but this object cannot be achieved by way of a mechanization to establish a general Canadian average. The tendency of the course recommended by the commission would be to lower the general standard of development rather than to raise it.[41]

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40. Mitchell F. Hepburn, Premier of Ontario, "For the Province of Ontario," ibid., pp. 10-12.

41. T. D. Pattullo, Premier of British Columbia, "For the Province of British Columbia," ibid., pp. 38-39.

And Alberta's premier, William Aberhart colourfully stated:

> I feel a little bit like the old lady who had her first operation. The folks gathered around her and said, "How did you feel when you went under the anaesthetic?" She said: "I felt just wonderful, beautiful. Every problem in the world seemed to depart from me; everything was solved for me all at once. I floated up, as it were beyond the clouds, and I thought I was in heaven. And then I opened my eyes a little bit and I saw the doctor, and I knew I could not be in heaven."
>
> As I listened to the arguments this afternoon it appeared to me that only one thing was necessary to solve our problems completely and make them pass out of existence, but when I open my eyes and look straight at those problems I find that they cannot be solved in this way.[42]

Whether for or against the recommendations, all the governments based their arguments on national unity and the successful prosecution of the war effort. The first day of the meeting ended, and the governments met to attempt to draw up a plan of action. The attempt failed. The federal Minister of Justice, Ernest Lapointe announced:

> Six premiers were in favour of appointing committees for the purpose of considering and discussing the recommendations of the Rowell-Sirois report, whatever their final attitude might be as to the adoption of the recommendations. Three premiers declared that they would refuse to sit on committees for the purpose of considering and discussing matters predicated upon the Rowell-Sirois report, as they were opposed to it on principle. So no committee was recommended to be appointed.
>
> . . . . . .
>
> Hon. Mr. PATTULO: . . . In regard to the discussion of our meeting this morning, I may say that the premiers of Ontario and Alberta and myself are opposed to the formation of any conference committees based upon the report. . . .
>
> Hon. Mr. ABERHART: But that does not mean that we

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42. William Aberhart, Premier of Alberta, "For the Province of Alberta," ibid., p. 55.

> are not ready to discuss the whole case in its widest aspects, and all the problems that we have as between the dominion and the provinces.[43]

The conference ended, the Rowell-Sirois Report and its comprehensive plan had proven unacceptable to certain of the provinces, hardly a surprising conclusion, given the regional nature of the nation, a fact which the Commission itself had recognized. The important point is not the disagreement among the provinces but that the cleavage between those supporting and rejecting the Report rested on the allocation of the national adjustment grants. The wealthier provinces, not receiving these grants, refused to accept the recommendations as the basis for a new financial scheme. It appeared that for any kind of resolution of the dilemmas of the financial system, some alternate approaches were necessary. Consideration had to be taken to find a means of reconciling the needs of the poor provinces and the demands of the wealthy provinces. From 1941 to today, these cross-currents have affected federal-provincial financial relations and is the subject of the next chapter.

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43. "Report of Proceedings, January 15, 1941," ibid., pp. 69-70.

CHAPTER III

FEDERAL-PROVINCIAL FINANCIAL ARRANGEMENTS, 1941-1973

Beginning with the 1941 Dominion-Provincial Conference, the federal and provincial governments have met regularly to negotiate financial arrangements designed to satisfy, as much as possible, the increasing revenue needs of both levels. Discussions have revolved around the taxing authority; the federal government having the unlimited power to tax, the provinces having the power of direct taxation, a highly elastic and lucrative tax field. The Dominion government, having assumed the responsibility for ensuring national economic growth and stability, felt it necessary to control this tax area, since it provided them with a powerful fiscal tool in carrying out this function. If, however, the federal government was to assume a dominant position in the direct tax field already occupied by the provinces, it was necessary to give the provinces some sort of compensation.

Basically, then, the discussions between the two levels of government have focussed on the amount of money the provinces would or should derive from what have been called the three "standard taxes" of personal and corporate income taxes and succession duties. The initial arrangement was the Wartime Tax Agreement of 1942. This has been followed by successive five-year agreements to the present day.

In many respects, the agreements to 1957, a period which encompassed the Wartime Tax Agreements and the tax rental agreements, parallel the negotiations found

at Confederation and those which followed in its wake. One finds that different "options" were presented by the federal government, designed to maximize the revenues available to the individual provinces but within fixed aggregate financial limits. At the same time, one finds the federal government negotiating unilaterally with individual provincial governments, which is reminiscent of the discussions surroun[illegible] terms of entry of British Columbia, Prince Edward I[illegible]d and Newfoundland. It is clear that each province was anxious to secure as much revenue as possible from the central government. The particular circumstances of each region, however, resulted in the need to adopt different methods to achieve arrangements satisfactory to each province and yet leave no province with the feeling that it had not been treated fairly. Other than the various options offered by the federal government, it is difficult to isolate any concrete policy designed to eliminate regional disparities. Clearly, the philosophy of the Rowell-Sirois Commission in recommending National Adjustment Grants based on fiscal need was not followed. It had become evident that the positions of the wealthy, as well as the poor, provinces would have to be considered. What were some of the options and how did they affect the individual provinces?

With the rejection of the Rowell-Sirois recommendations, the federal government had warned the 1941 Conference that it would be forced to control personal and corporation income taxes for the duration of the war.[1] The provinces agreed to this temporary measure, provided that they were adequately compensated. Given the heterogeneous nature of the provinces, the federal government found it necessary to draft two options. The first option, adopted

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1. J. A. Maxwell, Recent Developments in Dominion-Provincial Relations in Canada (New York: National Bureau of Economic Research, Inc., 1948), p. 11.

Table III-1

Dominion-Provincial Tax Agreement, 1942: Calculation of Basic Payment Under the Two Options. Based on the Nearest Fiscal Year ended December 31, 1940.

($000)

Province	Tax Option[a]	Debt Option[b]
P.E.I.	252	265
N.S.	1,611	2,585
N.B.	2,450	3,279
Que.	20,586	1,702
Ont.	28,964	9,428
Man.	5,055	3,174
Sask.	2,093	4,330
Alta.	4,081	2,729
B.C.	12,048	5,503

a. Provincial and municipal revenues from suspended taxes.

b. Debt service charges: interest on gross debts excluding debentures, discount, amortization and sinking fund or debt retirement; less interest receipts, less succession duty receipts.

Source: Table 4, A. Milton Moore, J. Harvey Perry and Donald I. Beach, The Financing of Canadian Federation: The First Hundred Years (Toronto: Canadian Tax Foundation, 1966), p. 20.

by Saskatchewan and the Maritimes, was related to the debts which these provinces had accumulated during the Depression. The second option, adopted by the remainder of the provinces, was based on the revenue yields of the relinquished tax fields in the fiscal year ended 1940. Table III-1 shows the application of the two alternatives, the more beneficial of which was to be the basic rental payment to the provinces under the agreement.

Since the tax agreement was to replace existing special subsidies for the duration of the war, special consideration had to be given to certain provinces. Thus, the federal government also proposed "a subsidy based on

fiscal need if need could be shown."[2] Table III-2 shows the effect of the Wartime Tax Agreements on the provinces.

From the Table, one must note the recognition of differences between the provinces with regard to the agreements. While special grants were to be discontinued as a result of the scheme, the Maritimes were assured that theirs would be reinstated after the expiration of the Act. In the cases of Manitoba, Saskatchewan and British Columbia, no such guarantee was given. Recognizing, however, the relative disparity between Manitoba and Saskatchewan on the one hand, and British Columbia on the other, the two former provinces were to receive additional subsidies for the period covered by the tax agreements. The fiscal need subsidy was only granted to the Atlantic provinces.

The assurance by the Minister of Finance that the Wartime Tax Agreement would be a temporary one, and that the federal government would withdraw from the direct tax fields one year after the war ended, proved to be an empty promise.

> No great perspicacity was required. . . to foresee that the forces that made for federal occupancy during the war would not be spent after the war, that taxpayers might wish to retain the luxury of one law and one return, and that those provincial governments which received more by way of subsidies than from provincial collections might prefer to continue the agreements.[3]

The war, which had resulted in the general acceptance of federal control of the direct tax fields was replaced in the post-war period by the fear that unless the federal government retained control of these tax sources, it would not be able to deal with future emergency situations. Of particular concern was the possibility of another depression

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2. Maxwell, op. cit., p. 11.

3. Ibid., p. 13.

Table III-2

Payments to Provinces: Effect of Wartime Tax Agreements
($000)

Province	Rental Payment	Fiscal Need Subsidy	Additional Subsidies	Annual Payments Under Agreement[a]	Revenue from Suspended Taxes	Special Grants Discont'	Subtotal[b]	Gain or Loss $000	Gain or Loss (%)
P.E.I.	265	262	175	702	252	275[c]	527	+175	(33)
N.S.	2,585	326	---	2,911	1,611	1,300[c]	2,911	---	(0)
N.B.	3,279	71	300	3,650	2,450	900[c]	3,350	+300	(9)
Que.	20,586	---	---	20,586	20,586	---	20,586	---	(0)
Ont.	28,964	---	---	28,964	28,964	---	28,964	---	(0)
Man.	5,055	---	600	5,655	5,055	750	5,805	-150	(-3)
Sask.	4,330	---	1,500	5,830	2,093	1,500	3,593	+2,237	(62)
Alta.[d]									
1942	4,081	---	---	4,081	4,081	---	4,081	---	(0)
1945	4,828	---	---	5,828	4,081	---	4,081	+1,747	(42)
B.C.	12,048	---	---	12,048	12,048	750	12,798	-750	(-6)

a. Annual Payments under Agreement equals sum of rental payment, fiscal need subsidy, and additional subsidies.

b. Subtotal equals sum of revenue from suspended taxes and special grants discontinued.

c. These special grants, which were to be discontinued, were to be re-introduced after the war as "permanent statutory payments."

d. Alberta's original decision was to take the "tax option;" however, after a more generous interpretation of her debt in 1945, she changed to the "debt option."

Source: Table 5, Moore, Perry and Beach, op. cit., p. 21.

following the conflict. The central government, with the end of the war in sight, began to draw up a series of proposals to present to the provincial governments. The conflict between the federal and provincial governments over the lucrative direct tax area was to start anew.

The Conference on Reconstruction was convened in Ottawa in August of 1945. The recognition of provincial and, by inference, regional differences of the federation was made clear at the outset by Prime Minister Mackenzie King:

> My colleagues and I have, as is our duty, given first consideration to what we believe to be in the interests of Canada as a whole. But we have sought always to keep in mind the paramount fact that Canada is a federal state in which each of the provinces has its own special characteristics and special problems. The Dominion's proposals have been so framed that provincial and national governments alike would be strengthened in their capacity to perform their appropriate functions.[4]

The financial proposals were, in effect, a move on the part of the federal government to rent the direct tax fields from the provincial governments for a number of years, presumably after which the terms would be renegotiated and renewed. The reluctance of the provinces to relinquish the direct tax fields altogether, as expressed in 1941, had resulted in this being the only acceptable alternative. The compensatory payment proposed in return for the rental of the tax fields, was a minimum annual subsidy of $12 per head based on the provinces' populations as determined by the 1941 census. It was to be automatically increased as the per capita gross national product increased.[5] By linking

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4. Dominion-Provincial Conference, 1945: Dominion and Provincial Submissions and Plenary Conference Discussions (Ottawa: King's Printer, 1946), p. 1.

5. A. Milton Moore, J. Harvey Perry and Donald I. Beach, The Financing of Canadian Federation: The First Hundred Years, Canadian Tax Paper No. 43 (Toronto: Canadian Tax Foundation, 1966), p. 2.

the adjustment mechanism to the national economy, the poorer provinces would benefit from national economic growth, whatever circumstances their particular region faced.

The federal proposals provided for rather generous sums for the wealthier provinces as well. Table III-3 shows a comparison of the provincial receipts, before and after the proposals were implemented. During the ensuing months of discussion, the regional nature of the federation became readily apparent, for the financial proposals were accepted, with some reservations, by the "have-not" provinces, and rejected by Ontario and Quebec. The Conference reassembled on April 29, 1946, where attempts to reach a consensus failed. The Conference adjourned sine die on May 3rd.

The difficulty in reconciling the different provincial interests ultimately resulted in the breakdown. The basic concept of federal-provincial financial relations varied with the circumstances of each province. Ontario, whose direct tax fields were very lucrative, argued that each government needed control of its own tax sources to ensure financial responsibility to its electorate and to uphold the principle of provincial autonomy. This position was articulated by Premier George Drew.

> Any arrangement. . . which provided for a centralized collection of the greater part of the tax requirements of the provincial governments and made them mere annuitants of the central government would place the provincial governments under the control of the central government to an extent that meetings of the members of the legislature would become almost meaningless. . . . If the provincial legislatures are to continue as free and responsible legislative bodies within the conception of the British North America Act, then it would seem clear that the provincial governments must have the authority over their own taxation within clearly defined fields.[6]

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6. Dominion-Provincial Conference, 1945, p. 11.

Table III-3

Dominion Payments to the Provinces, Payment under the Wartime Tax Agreement, Proposed Guaranteed Minimum Payments, 1945, 1947, Per Cent Increase, Guaranteed Minimum, 1945, over Wartime Payments, Guaranteed Minimum, 1947, over Wartime Payments, and over 1945 Proposal

Province	Wartime Payments	Guaranteed Minimum 1945		Guaranteed Minimum 1947		
		Minimum	Increase Over Wartime Payments	Minimum	Increase Over Wartime Payments	Increase Over 1945 Proposal
	($ Millions)	($ Millions)	(%)	($ Millions)	(%)	(%)
P.E.I.	1.2	2.0	66.7	2.1	75.0	5.0
N.S.	4.2	8.9	111.9	10.9	159.5	22.6
N.B.	4.8	7.0	45.8	8.8	83.3	25.8
Que.	31.3	50.9	62.4	56.4	80.2	10.8
Ont.	44.3	58.3	31.6	67.2	47.2	15.3
Man.	8.0	10.9	36.3	13.5	68.7	23.8
Sask.	8.2	13.4	63.4	15.3	86.5	14.2
Alta.	8.2	11.9	45.1	14.2	73.2	19.2
B.C.	14.3	18.1	26.6	18.1	26.6	n.c.
TOTALS	124.5	184.4		206.5		
AVERAGES			48.1		66.0	12.0

Sources: Dominion-Provincial Conference, 1945, p. 384; and Table 6, Moore, Perry and Beach, op. cit., p. 28.

The dependence on the financial transfers from the federal government had pre-determined the response of other provinces, who were less concerned with financial autonomy than with the maintenance of a strong federal government capable of granting larger transfers to them. Premier J. B. McNair of New Brunswick thus stated:

> With its control of monetary policy, and the broad and unlimited powers of taxation it possesses, the Dominion is in a position, drawing upon the resources and tax bearing capacity of the whole nation, to see to it that the provinces are placed in a position to maintain their local services at appropriate and uniform Canadian levels.[7]

He went on to urge, not the repeal of the Wartime Tax Agreements, but their revision, "with a view to meeting the rising costs, and the needs of our [provincial government] services generally."[8] The emphasis on the provision of governmental services and a counter-argument to Ontario's position, was presented by Premier Douglas of Saskatchewan.

> We do not agree when it is said sometimes that the surrender of taxing power necessarily involves the loss of authority.
>
> . . . . . .
>
> These tax agreements have in no way restricted the capacity of the provinces to serve human needs; and as a matter of fact we believe it has enhanced the power of the provinces to satisfy human needs.[9]

Quebec, on the other hand, a firm advocate of provincial autonomy, agreed with Ontario that the federal government must be opposed in its endeavours to centralize further power in the federal system. With these seemingly irreconcilable positions taken by the various governments, it is no wonder that the Conference adjourned without agreement. The poorer provinces, hampered by their weak taxing capacities, would not benefit from gaining further taxation powers; the

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7. Dominion-Provincial Conference, 1945, pp. 26-27.
8. Ibid., p. 28.
9. Ibid., p. 35.

Table III-4

1947 Agreements: Minimum Annual Payments to Provinces ($000)

Province	First Option[a]	Second Option[b]	Third Option[c]	Most Favourable Option
P.E.I.	1,930	2,007	2,100	Third (2,100)
N.S.	10,345	10,870	---	Second(10,870)
N.B.	8,773	8,592	---	First (8,773)
Que.	56,382	53,717	---	First (56,382)
Ont.	67,158	61,415	---	First (67,158)
Man.	13,540	12,653	---	First (13,540)
Sask.	14,350	15,291	---	Second(15,291)
Alta.	14,228	13,982	---	First (14,228)
B.C.	18,120	14,058	---	First (18,120)

a. First Option: (i) $12.75 per capita on 1942 population, (ii) 50% of provincial income and corporation tax revenues for the fiscal year ending nearest Dec., 1940, (iii) statutory subsidies payable in 1947.
b. Second Option: (i) $15.00 per capita on 1942 population, (ii) statutory subsidies payable in 1947.
c. Third Option: available only to Prince Edward Island.

Source: Table 7, Moore, Perry and Beach, op. cit., p. 30.

wealthier provinces (and Quebec, with her emphasis on provincial autonomy), were not happy with federal control over the direct revenue sources.

With the failure of the 1945 Conference on Reconstruction, the federal government reverted to negotiations on a province by province basis. Ontario and Quebec steadfastly refused to enter into these meetings, a factor which hampered the federal government's attempts to achieve some sort of basic national scheme. In an effort to gain the consent of all the provinces to a tax rental scheme, the central government devised three options for calculating the basic compensatory payment. Table III-4 shows the options applied to each of the provinces.

The calculation of the guaranteed minimum payment was to provide a "floor" for the provinces, an important factor in budget planning. The actual payment was linked to increasing population within the province or an increase in the gross national product, factors which also resulted in increasing expenditures, and a corresponding need for increased revenues.[10] By using the gross national product as a determining factor, the provinces experiencing slow economic growth would attain a share of the general wealth created through economic prosperity. It did, however, tend to benefit the areas of rapid growth as well, with the result that the federal treasury paid out considerably more than the minimum payment.

> The overall effect of the acceleration for population and gross national product may be judged from the fact that had the guaranteed minimum payments been in effect for the five years 1947 to 1951 the total payments would have been $413 million. In fact the adjusted payment came to $558.8 million, or about 35% more.[11]

The agreement was an attempt to allow the prairies and the maritimes to benefit from national economic growth.

> "By selling certain rights to the Dominion for the term of the agreement, they are put in a position of sharing with the two central provinces equally on a per capita basis the productivity of the three great fields of direct progressive taxation -- corporation taxes, taxes on personal income and succession duties. Surely this is going very far to meet the test of fixed need."[12]

Recognizing that Prince Edward Island would not receive sufficient revenues from either of the first two options, the federal government offered the Island province a basic payment of $2,100,000 per annum. The point here is, while

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10. Moore, Perry and Beach, op. cit., p. 29.

11. Ibid., p. 31.

12. J. L. Ilsley, Minister of Finance, "Budget Speech, June 27, 1946," quoted in Moore, Perry and Beach, op. cit., p. 31.

recognizing the regional differences between the provinces of Canada, the federal government tried to even these disparities by tying the payments to the national economy rather than solely provincial factors. However, the provinces of rapid growth would still, in the long run, have the advantage over the poorer provinces. The federal government, in attempting to satisfy all provinces, had provided more generous terms to Ontario and Quebec. Nonetheless, they refused to enter into the agreements. The other seven provinces, and later Newfoundland, signed agreements which lasted for a five year period bringing Canada into what has been described as the era of tax rentals.

The federal government proceeded to renegotiate the tax arrangements in 1950, two years before the 1947 agreements were due to expire. The Prime Minister, Mr. St. Laurent, convened a conference in that year to discuss a continuation of the tax agreements. The Korean War, and the uncertainty involved in forecasting long-range federal expenditures, resulted in Ottawa's reluctance to increase dramatically the payments to provinces. Nevertheless, since the federal government was desirous of maintaining its firm grip on the direct tax fields, some compromise was necessary. In recognition of the general need for more revenues, the federal government proposed to increase the guaranteed minimum payment by approximately 50 per cent. While this would raise the floor of the payments, "it would not increase the actual payments, since the adjustments for population and economic growth had already raised them above this level."[13]

As such, the options were basically the same as those under the 1947 agreements. Another alternative, however, was brought forward, designed to meet the demands of Ontario. A new method of calculating the guaranteed minimum was introduced: (i) the yield of personal income tax at 5%

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13. Moore, Perry and Beach, op. cit., p. 39.

Table III-5

Guaranteed Minimum Annual Payments under the 1947 and 1952 Agreements, Per Cent Increase, 1952 over 1947, and Annual Adjusted Payments for 1952-53 ($ Millions)

Province	Guaranteed Minimum Payments 1947 Agreements	1952 Agreements	Per Cent Increase	Annual Adjusted Payment 1952-53
Nfld. (1949)	6.2	9.2	48	12.3
P.E.I.	2.1	3.0	43	3.9
N.S.	10.9	15.3	40	20.2
N.B.	8.8	12.6	43	16.6
Que.[a]	56.4	85.1	53	115.0
Ont.	67.2[a]	101.8	51	137.2
Man.	13.5	18.6	38	24.7
Sask.	15.3	20.0	30	25.6
Alta.	14.2	21.0	56	29.4
B.C.	18.1	29.6	63	41.4

a. The amounts shown for Ontario and Quebec are the amounts that would have been payable had they entered the agreements.

Source: Adapted from Table 10, Moore, Perry and Beach, op. cit., p. 42.

of the 1948 federal rate, (ii) the province would receive the equivalent of a provincial tax of 8½% on corporation profits, (iii) the average revenue yield received from succession duties by the province for the last two years before the duties were suspended, or for the three fiscal years 1947, 1948, and 1949 in the cases of Ontario and Quebec, and (iv) statutory subsidies payable in 1948.[14] This option was beneficial only to Ontario, raising its minimum payment by $2 million. The remaining provinces were better off under the revised options based on per capita, or

14. Douglas Abbott, Federal Minister of Finance, Proceedings of the Conference of Federal and Provincial Governments, Ottawa, December 4-7, 1950 (Ottawa: Queen's Printer, 1953), p. 142.

per capita plus 50 per cent of the direct tax revenues, based on the year 1948. Table III-5 shows a comparison of the two agreements.

The 1952 agreements were signed by nine of the ten provinces, Quebec being the exception. Ontario did agree, but only after the federal government allowed her to levy her own succession duties. It must be noted that while all provinces received more money, the gap between the wealthy and the poorer provinces was increasing; the percent increases in unconditional transfers from the federal government were greater for Ontario, Alberta, and British Columbia (and Quebec, if she had agreed to the arrangement), than to the less well-to-do provinces. While the poorer provinces were receiving additional funds to support government programmes, the disparities were not, by any means, being redressed.

The agreements of both 1947 and 1952 had been drawn up with the federal government's assurance that the provinces would not be pressured into signing. Provision had been made for "tax room," which provided non-agreeing provinces room in the direct fields without the danger of double taxation. Quebec challenged this assurance, claiming that the abatements were not equal to the amount they would have received under the scheme.

> Quebec imposed a personal income tax at roughly 15% of the federal rates. Ottawa responded, after some provocation from Mr. Duplessis, by raising its personal income tax credit to 10%. Even this move, however, cost the federal treasury considerably less than a tax rental agreement. . . . [The] 5% overlap left the only example of so-called double taxation in the federal-provincial arrangements, something long decried by the federal government.[15]

The general agreements were endangered by the federal "concession," for the change threatened to lead to demands on the part of the other provinces to alter their terms of agreement.

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15. Moore, Perry and Beach, op. cit., p. 46.

With the growing defiance of Quebec, and the increasing restlessness on the part of the other provinces, the federal government called a Conference in 1955 to discuss financial arrangements between the two levels of government. The Conference was the first time in over two decades that the governments had met in times of normalcy; the Korean War had ended and the economy was relatively buoyant. The task facing the meeting, therefore, was one of attempting to balance the needs and resources of the two governmental levels during a period of expansion and prosperity, a time when provincial expenditures had risen dramatically in relation to those of the federal government. The crux of the matter was presented by Prime Minister St. Laurent in his opening statement:

> Our present problem is two-fold -- to achieve some method of sharing of the revenue available from the direct tax field, and some reasonable degree of equity and stability in the revenue of the various provinces. The latter involves some recognition of the fiscal need of those provinces whose tax potential is less than others -- some payment of subsidies of one form or another.[16]

The Prime Minister went on to point out with great clarity the chief conflicts which had become evident in previous negotiations to settle these problems. Referring to a perfect financial formula, he stated:

> [The perfect formula] should ensure responsible government at both levels, make possible far-sighted fiscal policies, permit the richer provinces to benefit from their wealth, give assistance to the other provinces, avoid duplication of tax laws and separate costly systems of tax collection, avoid the need of tax credits, stabilize provincial revenues, protect provincial independence, safeguard the strength of the federal treasury -- a very large number of competing objectives.[17]

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16. Proceedings of the Dominion-Provincial Conference, 1955 (Ottawa: Queen's Printer, 1955), pp. 11-12.

17. Ibid., p. 14.

The federal government, after raising a number of thorny problems, proceeded to introduce a new set of proposals aimed at their resolution.

The 1956 tax agreements were based on the concept of "tax-sharing" rather than the previous idea of "tax-rental." Thus, the new proposals were an extension of the alternative designed in 1952 for the province of Ontario. The federal government provided tax credits in the standard tax fields. The provincial share of these three fields was ten per cent of the federal tax on personal incomes, an equivalent of nine per cent of a province's tax on corporation profits, and 50 per cent of the federal tax on estates. The provinces had the option of collecting these taxes themselves, or of renting the entire field to the central government and receiving from it the equivalent amount.

Aware that tax capacities varied from province to province, and consequently that the monies received under the tax-sharing agreement would not meet the requirements of some governments, the Dominion introduced the concept of equalization. For the first time, fiscal need was specifically accounted for in the financial agreements. Moreover, in response to Quebec's demand that the agreements be strictly voluntary, the equalization payment was to be given to all eligible provinces, whether or not they signed the agreement. The provinces were free to spend it as they saw fit. The payment to a receiving province was to be "equal to the amount necessary to bring its per capita yield from its share of tax rental payments or abatements. . . up to the weighted average per capita yield for the two provinces in which the yield was the highest."[18] By weighting it to the revenue yield of the top two provinces, all provinces save Ontario were to receive some degree of equalization. A stabilization payment was also to be provided equal to

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18. Moore, Perry and Beach, op. cit., p. 55.

95 per cent of the average payment to the province in the last two years, if the new arrangement proved detrimental to certain governments.

During the negotiations, the question of how the provinces were to receive more revenues from the federal government again highlighted the disparity issue. The wealthier provinces wanted a greater share of the standard taxes. The poorer provinces, with their restricted tax capacities, demanded a more generous equalization formula. The federal government had been unwilling to go as far as some provinces had hoped in recognizing the fiscal needs of the governments. It was argued that provincial need could not be based solely on revenues generated by the standard taxes, as the total revenue picture was vital in determining fiscal need. If capacity was to be equalized, other income sources had to be taken into consideration. By using only the standard taxes and ignoring other revenue sources, the total capacity, and therefore fiscal need, was not the basis of the equalization payments -- the schedule was distorted. Provinces with lucrative revenue sources in areas other than the standard taxes (for example, natural resource revenues) received equalization that they may not otherwise have been entitled to, while the have-not provinces, whose tax capacity in all areas was generally below average, did not receive "their due." It was, however, a move on the part of the federal government to assume direct responsibility for reducing financial disparities amongst the provinces. While the payments were made on a provincial basis due to the nature of the negotiations between autonomous governments, the regional nature of the federation, the grouping of sections of the country continued to be a characteristic of the arrangements. This is highlighted if the equalization payments are revealed in per capita terms. Table III-6 shows the proposed payments to the provinces on a total and per capita basis.

Table III-6

Federal Payments Under Federal-Provincial Tax-Sharing Arrangements Act, Fiscal Year 1957-1958

Province	Share of Standard Taxes ($000)	Share of Standard Taxes Per Capita	Equalization ($000)	Equalization Per Capita	Stabilization ($000)	Total ($000)
Nfld.	4,596	10.85	11,811	27.88	---	24,407[a]
P.E.I.	802	7.99	3,085	30.74	307	4,194
N.S.	10,080	14.34	17,150	24.39	---	23,231
N.B.	13,209	23.45	8,607	15.28	---	21,816
Que.	137,856	28.99	46,309	9.74	---	43,309[b]
Ont.	221,289	39.72	---	---	---	71,487[c]
Man.	19,287	22.31	14,193	16.42	---	33,480
Sask.	14,190	15.95	20,264	22.78	---	34,454
Alta.	33,091	28.41	12,022	10.32	---	45,112
B.C.	50,402	34.89	5,547	3.84	3,760	59,709
TOTALS	504,802		138,988		4,067	365,200[a]

a. Totals include a transitional grant of $1,400,000 and an additional grant of $6,600,000.

b. Quebec's equalization payment was reduced by $3 million due to a special corporation tax imposed by her.

c. Personal income tax only: Ontario elected to collect her own corporation income tax and succession duties.

Source: From Table 13, Moore, Perry and Beach, op. cit., p. 58.

Once again, Quebec elected to remain out of the arrangements, collecting her own taxes. Ontario only partially entered into the agreements with the federal government collecting the personal income tax revenues for her. The revenues from the taxes varied considerably from province to province, as can be seen from the Table, and while the equalization payments were a step towards reconciling fiscal capacity and fiscal need, provincial revenues were still not considered (by the provinces at least) adequate to cover their expenditures.

The "option" approach which had been previously adhered to was no longer necessary, for the formula was now applicable on a national basis, and with equalization was flexible enough to take provincial variations into account. While the 1957 agreement increased the revenues available to the provinces and recognized their different fiscal capacities, it did not satisfy provincial demands, either for a greater share of the tax pie or for complete elimination of inter-provincial fiscal disparities. As such, subsequent negotiations since 1957 have led to modifications of the agreements along these two dimensions. Table III-7 shows the equalization payments to the provinces from the years 1957-58 to 1972-73 and illustrates the current importance of this program which had very modest beginnings.

A further step towards recognizing the federal responsibility to the more disparate regions was taken in 1957 under the new federal leadership of J. G. Diefenbaker. The Prime Minister, at the 1957 Federal-Provincial Conference stated:

> I believe that we all recognize . . . that the Atlantic Provinces as a group are confronted with greater difficulties in public finance than the rest of the nation, if they are to maintain the sort of Provincial and Municipal services that Canadians generally expect.[19]

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19. Dominion-Provincial Conference, 1957, Ottawa, November 25th and 26th, 1957 (Ottawa: Queen's Printer, 1958), p.12.

Table III-7(a)

Equalization Payments by Province, 1957-58 to 1961-62
($ Millions)

Province	1957 Agreement				
	1957-58	1958-59	1959-60	1960-61	1961-62
Nfld.	19.8	28.1	30.1	28.0	28.7
P.E.I.	3.4[a]	5.8[a]	6.0	5.7[a]	5.4[a]
N.S.	17.2	26.2	27.8	26.6	26.1
N.B.	8.6	22.6	24.6	23.6	24.0
Que.	43.3	60.2	74.7	64.7	67.4
Ont.	---	---	---	---	---
Man.	14.2	13.4	14.7	13.2	12.9
Sask.	20.3	20.3	23.4	21.6	23.0
Alta.	12.0	13.5	16.4	15.3	14.0
B.C.	9.3[a]	9.0[a]	5.9	7.4[a]	5.9[a]
TOTALS	148.1	199.1	223.6	206.1	207.5

a. Includes stabilization payments.

Table III-7(b)

Equalization Payments by Province, 1962-63 to 1966-67
($ Millions)

	1962 Agreement				
Province	1962-63	1963-64	1964-65	1965-66	1966-67
Nfld.	32.2	32.4	37.6	41.1	39.2
P.E.I.	7.1	7.4	8.2	9.0	10.5
N.S.	28.2	30.7	36.0	40.7	47.9
N.B.	25.9	27.3	33.0	36.4	44.2
Que.	68.9	69.9	99.0	117.0	151.3
Ont.	---	---	---	---	---
Man.	13.9	14.3	19.2	22.4	30.5
Sask.	22.7	22.1	25.0	28.7	31.4
Alta.	11.8	6.4	.4	---	---
B.C.	---	---	---	---	---
TOTALS	210.7	210.4	258.6	295.1	355.0

Table III-7(c)

Equalization Payments by Province, 1967-68 to 1972-73
($ Millions)

Province	1967 Agreement					1972 Agreement
	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Nfld.	65.4	73.0	95.9	96.7	110.1	112.8
P.E.I.	14.0	16.1	19.1	19.8	20.8	23.7
N.S.	72.5	79.4	89.9	91.7	94.6	104.3
N.B.	62.7	70.7	85.5	89.2	94.0	104.8
Que.	273.1	392.2	439.6	408.7	446.5	446.1
Ont.	---	---	---	---	---	---
Man.	37.3	46.8	50.7	52.2	50.0	58.1
Sask.	24.5[b]	30.3	72.5[c]	96.4	54.8	94.2
Alta.	---	---	---	---	---	---
B.C.	---	---	---	---	---	---
TOTALS	549.6	708.7	853.2	854.8	870.8	943.9

b. Includes a transitional guarantee.

c. Note that Saskatchewan's payments rose dramatically between 1968-69 and 1969-70. This was probably the result of the poor agricultural conditions at that time. The heavy dependence of Saskatchewan on the agricultural sector resulted in the general economy stagnating.

Source: Moore, Perry and Beach, Table 25, op. cit., p. 107 and David B. Perry, "Federal-Provincial Fiscal Relations: The Last Six Years and the Next Five," Canadian Tax Journal, XX, No. 4 (July-August, 1972), Table 1, p. 350. The Equalization Payments here include fiscal arrangement payments and Atlantic Adjustment Grants. The Newfoundland Additional and Transitional Grants are also included. It should be noted that certain of the figures are estimates, however, the general trend is clearly illustrated in the table.

Rather than expand the tax base of the equalization formula to include more revenue sources, as the poorer provinces had advocated, the Prime Minister proposed an alternative.

> My colleagues and I are prepared to recommend to Parliament some form of special assistance to the Governments of the Atlantic Provinces. I ask you to consider what the total amount should be and how best that this assistance will be provided by all the people of Canada.[20]

While the recognition of regional disparities was not questioned by the conference, Premier Frost of Ontario made it quite clear that this principle was not the only one which should be taken into account in revising the agreements. To him, an equally important consideration was the cost of providing services in rapidly expanding areas.

> We recognize that all the difficulties do not lie in the Provinces having the greatest concentration of industry and population. We support adjustment payments to the other Provinces.
>
> . . . . . .
>
> However, Ontario cannot get along with the present standard rates upon which the whole system of fiscal adjustments is based. It is fundamental that the standard tax abatements be raised to a realistic level if the system is to work.[21]

They proposed an increase in the standard tax shares from 10-9-50 to 15-15-50 to meet the increasing costs to the provinces.

The more hard-pressed provinces emphasized their awkward situation in attempting to provide a national minimum standard of services with less than average revenue yields, a familiar argument at the conference table. Premier Hugh J. Flemming stated:

> If New Brunswick is to provide a reasonable level of services. . .without imposing taxation substantially heavier than the Canadian average there is no alternative but an adjustment grant to supplement any per capita payment of general application.[22]

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20. Dominion-Provincial Conference, 1957, p. 12.

21. Ibid., p. 18.

22. Ibid., pp. 39-40.

The prairies also entered into the fray, pressing for recognition of their special needs. The Premier of Manitoba, Douglas Campbell, supported an increased equalization payment on the basis not only of financial need, but also as a matter of right, as retribution for the discriminatory policies of the federal government.

> We are . . . claiming the recognition of a right. We want to get back some of the money that our people are paying each year in the form of higher prices, due in large part to the tariffs and other devices erected by the Federal Government which have had the effect of protecting the manufacturing industries mainly concentrated in Central Canada.[23]

This argument is reminiscent of the prairies' special claims in the past.

In general then, all the provinces advocated that they be given increased funds for one reason or another. The problem faced by the federal government was that demands presented to it were often contradictory and, if any one principle were accepted, the benefits would not be felt equally. The crux of the matter was stated by Premier Douglas of Saskatchewan.

> The fundamental failure of the present fiscal arrangements lies not so much in the method of sharing as in the size of the shares themselves. Of the total collected from the three tax sources covered in our arrangements, the Federal Government to-day pre-empts about 70 per cent, and the remaining 30 per cent is parcelled out to the provinces. Yet, it is the provincial and municipal governments which are bearing the brunt of increased expenditure in carrying out their recognized functions. We believe there is only one answer: the 30 per cent share must be increased substantially.[24]

The 1957 conference resulted in better terms for all provinces. The tax abatement in the personal income tax field was increased to 13 per cent, a move which resulted in substantial increases in the equalization payments. Moreover, the federal government implemented its proposed system

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23. Dominion-Provincial Conference, 1957, p. 57.

24. Ibid., p. 79.

of special grants to the maritimes.

> The Atlantic provinces adjustment grants constituted an arbitrary amount of additional unconditional assistance to the four provinces concerned. The rationale for these grants was the generally low fiscal capacity of the Atlantic region.[25]

The provinces agreed to split the $25 million allotted to them as follows: $7.5 million each to the provinces of New Brunswick, Nova Scotia, and Newfoundland, and $2.5 million to Prince Edward Island. Newfoundland received a further special grant in 1959 of $8 million (less the balance of transitional payments) for a period of five years.[26]

A number of principles had been introduced by 1958 which have been the basis of the financial arrangements to the present time. First, the federal government through equalization assumed the responsibility to reduce the financial disparities amongst the provinces to a point where the poorer ones could maintain a minimum level of services without too heavy a tax burden. The rationale for this was stated by Prime Minister Diefenbaker in 1957:

> We [the federal government] believe that this Federation cannot thrive in a climate of glaring disparities in levels and standards of services and development as between the several provinces from Newfoundland to British Columbia.[27]

Secondly, the requirements or realities of provincial autonomy demanded that these governments be free to spend this income as they saw fit. Thus, federal transfers under these agreements were to be made in a way such that the provinces received the necessary funds without conditions being attached. Third, the special case of the Maritimes was recognized and, in an effort to help the provinces most in need of federal assistance, special grants to this region

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25. Moore, Perry and Beach, op. cit., p. 61.

26. Ibid., pp. 61-63.

27. Dominion-Provincial Conference, 1957, p. 9.

were introduced.

> This device was interpreted in some quarters as a move to raise federal aid to the poorer provinces without similar assistance to the larger lower-middle income provinces. . . .[28]

There was an attempt, then, to protect the federal treasury as much as possible. It should be noted that the poorest provinces were also the smallest in terms of population as well as geographical size and share of natural resources. By concentrating on these poorer areas, costs to the federal government could be kept down, yet those provinces with the lowest tax capacity could be assisted.

The subsequent financial negotiations have found the wealthier provinces again demanding increased tax abatements because of the heavy costs involved in servicing areas of rapid growth. The poorer provinces have also pressed for an increased share of the taxes since any change had the dual advantage of a larger share and an increase in equalization payments. They also pressed for a more refined equalization formula, calling for a more comprehensive accounting of the total tax capacity of the respective provincial governments.

The negotiations surrounding the 1962 agreements were no exception. The federal government was becoming increasingly resistant to provincial inroads into the national treasury. The federal government placed itself in the uncomfortable and unenviable position of taxing the people of Canada, while the provincial governments received ever-increasing amounts of these revenues for provincial services. "More bluntly, the system resulted in federal taxation for provincial purposes, an arrangement which scarcely enhanced federal popularity with the electorate."[29]

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28. Moore, Perry and Beach, op. cit., p. 61.

29. Ibid., p. 69.

In an effort not only to inform the public where the money was going but also to respect the principle of financial autonomy, the federal government proposed that the provinces be allowed to impose a higher tax rate than the federal abatement, while still having the federal government collect the revenues. This extra tax, however, was clearly designated as being imposed by the province rather than the Dominion.

Although the Prime Minister at the 1961 Conference had emphasized the desirability of protecting the principle of provincial autonomy, he also had resisted attempts on the part of the provinces to have the Federal Government withdraw substantially from the income tax fields.

> Returning to the Provinces the responsibility to levy their own direct taxes raises the question as to the extent of withdrawal by the Federal Government from the personal and corporation income tax fields. The Federal Government has given very careful consideration to this question. It must continue to discharge its vast responsibilities, to provide equalization payments and also to pay the Federal share of the many programmes now jointly born by both levels of government, which this year amount to some $440 million. It is simply not possible for the Federal Government to discharge these responsibilites [sic] and at the same time comply with the demands of some Provinces for mathematically equal sharing in the personal income tax and corporation tax.[30]

While the federal government had been reluctant to increase the provincial share in direct tax fields by any substantial amount, they were forced to concede points to satisfy all provinces and thus secure agreement. The provincial share of the standard taxes rose to 16-9-50, which provided more money to all provinces. In an effort to protect the federal treasury while attempting to aid the poorer members of

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30. "Statement by the Right Honourable John G. Diefenbaker, P.C., Q.C., M.P., Prime Minister of Canada to the Dominion-Provincial Conference, Thursday, February 23/61," (Mimeograph; Ottawa: n.d.), p. 25.

Confederation, the federal government moved the equalization formula from the average yield of the top two provinces to the national average, "a move to moderate the level of redistribution in view of the broader base which resulted from the increased share of personal income tax."[31] While the switch to the national average proved disadvantageous to all recipient provinces of equalization, the Atlantic Adjustment Grant was increased to offset the losses to the Maritimes.

A profound change in the 1962 agreements was the inclusion of resource revenues in the equalization formula.

> The present formula disregards sources of Provincial revenue other than the three standard direct taxes. The present Government has had to supplement it by introducing the Atlantic Provinces Adjustment Grants as it has proven to be an inadequate base for determining fiscal need. Furthermore, it entirely ignores the wide variation in the revenue derived from natural resources. In the interests of equity and fairness, we now propose that for the purpose of determining equalization payments, the formual [sic] should include not only the yields from three standard taxes (with the increasing rates for personal income tax. . .) but as well one-half of the three-year moving average of gross natural resource revenues. . . .[32]

This was the first in a series of adjustments in the equalization formula. The three standard taxes were no longer to be used as the sole basis for estimating the tax capacity of the provinces. While this partially satisfied the Maritime's demands that the total tax picture be taken into account, it had a drastic effect on the Western provinces' equalization receipts.

Further modifications were introduced in 1963 by Prime Minister Pearson. The Liberal party during the campaign had hinted at a better deal for the poorer provinces

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31. Moore, Perry and Beach, op. cit., p. 71.

32. "Statement by the Right Honourable John G. Diefenbaker, February 23, 1961," p. 27.

by returning the equalization formula to the basis of the average revenue yield of the top two provinces. Moreover, in partial response to the unhappiness of the provinces, the resource revenues provision in the equalization formula was amended.

> [A] point under discussion yesterday was the treatment of revenues from natural resources. The balance of the discussion seems to us to be that such revenues should be taken partially into account. The best practical way to do this is . . . to adjust the equalization which would be payable, to any province having natural resource revenue above the national average, by deducting an amount arrived at as follows: one half of the extent by which the natural resource revenue per capita exceeds the national average, multiplied by the population of the province.[33]

The conflicting interests of the provinces became immediately apparent, for the wealthier provinces attempted to stall any changes in the agreements which did not enhance their chances of gaining increased tax credits.

> Ontario entered into these [current] arrangements in good faith, and accordingly expects their form and nature to be maintained throughout the five-year period for which they were negotiated.
>
> . . . . . .
>
> Should the Conference decide on adjustments in our fiscal arrangements, they should take the form of an increase in the abatement rates and not of a structural change.[34]

British Columbia also challenged the federal proposals. Her equalization payments had, from 1957-58 decreased yearly, and she had been the recipient of stabilization payments until 1962-63. At that time, however, she was no longer to benefit from equalization, and she objected strenuously.

> In the current year Canada is paying, in essence from provincial direct-tax revenues, equalization amounting to 160 million dollars, of which 106 million dollars . . . is to the so-called "have-

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33. Prime Minister L. B. Pearson, Dominion-Provincial Conference, 1963, Ottawa, November 26th, 27th, 28th and 29th, 1963 (Ottawa: Queen's Printer, 1964), p. 50.

34. Premier Robarts, Dominion-Provincial Conference, 1963, pp. 24-25.

> not" provinces of Quebec, Manitoba, Saskatchewan and Alberta. British Columbia receives no payment whatsoever. Equalization in its present form is basically wrong and unfair.[35]

Resistance to the agreements was again gathering momentum, with the wealthier provinces unhappy about the revenues lost to them in the direct tax fields by federal involvement and the poorer provinces unhappy about the lack of recognition of the differing tax capacities of the regions. Pearson responded by announcing a further increase in the tax abatements in personal income tax from nine per cent to 21 per cent in 1965, and 22 per cent to 24 per cent in 1966. This also increased the equalization payments.[36] Quebec's desire to remain out of federal shared-cost programmes without financial penalty resulted in a sthedule of tax abatement points for various programmes totalling twenty points of personal income tax. Quebec accepted all twenty tax abatement points, the only province to do so.[37]

It was also during this period, in the fifties and sixties, that shared-cost programmes mushroomed in numbers and scope. Many of these programmes have built-in equalization features which cannot be ignored. Consider, for example, hospital insurance:

> [W]hile the federal share is half the aggregate program costs, it varies from province to province. This results from using a formula that defines the federal "half" as 25% of the per-capita cost in Canada plus 25% of the per-capita costs of the

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35. Premier W.A.C. Bennett, Dominion-Provincial Conference, 1963, pp. 69-70. Note that the Table III-7 (Supra., pp. 67-69) shows the total payment to be $210.7 million for the fiscal year 1962-63. The amount payable to the provinces of Quebec, Manitoba, Saskatchewan and Alberta totalled $117.3 million.

36. Moore, Perry and Beach, op. cit., p. 88.

37. Ibid., p. 88. The tax abatement points were offered in lieu of conditional grants by the following schedule: (1) Hospital insurance -- 20 points; (2) old age assistance, blind and disabled persons allowances -- 2 points; (3) welfare portion of unemployment assistance (to unemployables)-- 2 points; (4) vocational training -- 1 point, and (5) health grants -- 1 point. Ibid., p. 89.

> program actually incurred in the province. While federal contributions to low-cost provinces would exceed 50% of the program costs, a relatively high-cost province (Ontario) would receive less than 50%.[38]

The issue of shared-cost programmes was tied into the general financial question due to this built-in equalization factor. As the costs to the federal treasury rose, the wealthier provinces, from whom the monies were taken for redistribution, began to question the equalization principle. Thus, Premier Robarts, during the 1966 Tax Structure Committee meeting, stated:

> The equalization proposal is . . . incomplete in that there is implied equalization in some shared-cost formulae. As we have suggested, we feel that this implicit equalization should be eliminated from cost-sharing arrangements. Failing that, the formal equalization payment should be adjusted to take into account the equalization hidden in shared-cost formulae. We are convinced that there should be a single lump sum payment which includes all forms of equalization. As a paying province we want to know explicitly what the equalization bill amounts to.[39]

It was also at this meeting that Premier Robarts emphasized that there must be an upper limit to the costs of equalization.

> As a large, resources-rich province, Ontario has for many years been the paymaster for much of these federal transfers to the poorer provinces. We accept this situation but would caution against

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38. George E. Carter, Canadian Conditional Grants Since World War II, Canadian Tax Paper No. 54 (Toronto: Canadian Tax Foundation, 1971), p. 33. While the shared-cost programmes have become a very important part of the federal contribution to provincial revenues, the discussion of the programmes goes beyond the scope of this paper. The built-in equalization feature, however, is germain to the topic, as it has been a contentious issue in federal-provincial financial relations. See Carter for a thorough examination of the topic.

39. "Statement to the Tax Structure Committee," Federal-Provincial Tax Structure Committee, Ottawa, 14 and 15 September, 1966 (Ottawa: Queen's Printer, 1966), p. 45.

> carrying equalization so far that the growth and development of the wealthier provinces is retarded. Excessive inter-regional transfers will inevitably have detrimental effects on Canada's competitive position in the world economy.[40]

The new proposals which were adopted in 1967 again shifted the base of the equalization payment from the average yield of the specified taxes in the top two provinces to the national average. Moreover, sixteen revenue sources were used, which made the equalized base "capable of taking into account more provincial variation."[41] The tax abatements to the provinces under the 1967 agreements became 28 per cent of personal income tax, ten per cent of taxable corporate income, and 75 per cent of succession duties. The concern for mounting costs to the federal treasury and the demand for a more rational method of equalizing tax capacities continued to streamline the formula. The new proposals were seen as an effective method of determining the revenue needs of the poorer provinces. The government, however, also recognized the hardships that would be incurred in Saskatchewan, and included a special stabilization payment.[42] The Atlantic Provinces Additional Grants (formerly called the Adjustment Grants), were abolished, but the Maritimes were guaranteed an equivalent amount in equalization payments.[43] The move was presumably the result of the belief that the formula was now sophisticated enough that special grants to regions were no longer necessary.

The 1972 agreements continued the trend toward examining the total tax capacity of the provinces in the

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40. Federal-Provincial Tax Structure Committee, 1966, p. 45.

41. David B. Perry, "Federal-Provincial Fiscal Relations: The Last Six Years and the Next Five," Canadian Tax Journal, XX, No. 4 (July-August, 1972), p. 353.

42. Ibid.

43. Ibid.

equalization calculation by increasing the revenue sources used from 16 to 19.[44] The total cost of equalization to the federal government has increased from 549.6 million dollars in 1967-68 to 943.9 million dollars in 1972-73, an increase of 71.7 per cent. At the same time, the basis of calculating the payments has become more selective. While the number of provinces receiving the grant has been reduced from nine to seven since 1957, the distribution of the total equalization payments in percentage terms has changed little. Table III-8 shows the per cent distribution of the federal grants to the provinces in selected fiscal years.

Table III-8

Per Cent Distribution of Payments to the Provinces, Selected Years: 1957-58, 1962-63, 1964-65, 1967-68 and 1972-73

Province	1957-58	1962-63	1964-65	1967-68	1972-73
Nfld.	13.4	15.3	14.5	11.9	11.8
P.E.I.	2.3	3.4	3.2	2.5	2.5
N.S.	11.6	13.4	13.9	13.2	11.0
N.B.	5.8	12.3	12.7	11.4	10.9
Total Atlantic Provinces	33.1	44.4	44.3	39.0	36.2
Quebec	29.2	32.7	38.3	49.7	47.2
Ontario	---	---	---	---	---
Man.	9.6	6.6	7.4	6.8	6.2
Sask.	13.7	10.8	9.7	4.5	9.9
Alta.	8.1	5.6	0.2	---	---
Total Prairie Provinces	31.4	23.0	17.3	11.3	16.1
B.C.	6.3	---	---	---	---

Source: Adapted from Table III-7, supra., pp. 67-69.

44. The 16 original revenue sources were: (1) personal income tax, (2) corporation income tax, (3) succession duties and shares of estate tax, (4) general sales tax, (5) motor fuel tax, (6) motor vehicle revenues, (7) alcoholic beverage revenues, (8) forestry revenues, (9) oil royalties,

While the equalization payments in actual dollars were increased to the recipient provinces, from the Table it must be noted that Quebec was the sole province which actually benefitted from the changes in the formula over the years. The Atlantic provinces as a whole gained for a few years, however their total share in 1972-73 was only three per cent greater than it was in 1957-58. Moreover, the share of the payments of the Prairie provinces decreased quite dramatically. The Maritimes could not really complain, however, because they were getting more money over the years. The Prairies, on the other hand, had reason to complain, as their share decreased in both actual amounts and in their share of the total equalization payments.

The change in the federal approach from that of developing rental options to a tax sharing system augmented by an equalization payment, has allowed greater flexibility in determining the fiscal need of the various areas. It must be emphasized, however, that the outcome of each round of negotiations was as much a result of political bargaining as a recognition of economic differences. The competing objectives of the various governments had to be reconciled in order to reach a consensus, and through this process, the federal proposals were amended in order to at least quell pressing objections from individual provinces.

The need for compromise in a federal system in effect tempers the attainment of any one objective. The wealthy provinces were concerned with the total cost to the federation and the restriction of their taxing powers through the federal involvement in the direct tax fields; the poorer

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(10) natural gas royalties, (11) sales of Crown leases and reservations on oil and natural gas lands, (12) other oil and gas revenues, (13) metallic and non-metallic mineral revenues, (14) water power rentals, (15) other taxes, (16) other revenues. The three added in 1972 were: (17) health insurance premiums, (18) race track taxes, and (19) the provincial share of income tax on power utilities.

provinces were hampered by their restricted tax capacity in the provision of services seen as essential to all Canadians. All provinces were faced with satisfying limitless "needs," a problem which also plagued the federal government.[45] The demands for limited revenues had to be satisfied. The federal government's desire to protect her own treasury, yet satisfy the provincial request that fiscal capacity and fiscal need be recognized and dealt with, resulted in her attempts to reconcile all objectives, both federal and provincial.

The financial arrangements, although affecting individual provinces, have been a very important factor in discussing regional disparities, for it is here that the issue is raised, and it is here that the attempts to deal with the problem by means of redistribution of wealth occur. In talking about regions, there is obviously something to the idea of "strength in numbers." It is, however, not the only means by which the federal government has tackled regional disparities, for the provision of a minimum standard of essential services did not necessarily get at the root of the problem, namely, the varying degrees of economic development between the regions of Canada. In an effort to "lift" the poorer provinces to a level of economic development and prosperity which would allow a certain degree of self-sufficiency, the federal government has embarked on a myriad of programmes. The emergence of the Department of Regional Economic Expansion is the latest concerted attempt to promote a more even pattern of economic development in Canada, and is the subject of the next chapter.

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45. It has long been recognized that needs, even basic needs, are subject to interpretation by the society. Demands for goods and services are seemingly limitless, consequently, the revenues that governments deem "necessary" to provide "needed" public goods and services have also never seemed sufficient.

CHAPTER IV

THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

The creation of the Department of Regional Economic Expansion in March of 1969 marked a new era in the attempt to resolve the age-old problem of regional disparities. In introducing the legislation, Prime Minister Trudeau noted:

> We know . . . that regional disparities have existed since the very first days of Confederation. We also know that the federal government has attempted, especially for a few years now, to reduce such disparities by having recourse to equalization payments, cost sharing programs and an increasing number of regional development projects.
>
> . . . . . .
>
> [A]fter all such programs have been consolidated under the sole Department of Regional Economic Expansion, we shall be clearly in a better position to achieve real co-ordination and centralization of our endeavours and undertakings in such a worthy and vital sphere in respect of our country's future.[1]

The federal government thus committed itself to tackling this problem, and gave it high priority. The reason given for such concern was expressed by Jean Marchand, who was to become the first minister responsible for the new department.

> Canada as a nation can no longer live with the extremes of inequality which some people must now face simply because they are citizens of one part of Canada rather than another. Indeed, we cannot make the unity and identity of Canada secure unless we can remove the large disparities in the conditions of life in the regions of our country.[2]

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1. Canada, House of Commons, Debates, First Session, 28th Parliament, Vol. VI, February 27, 1969, p. 6016.

2. Canada, House of Commons, Debates, First Session, 28th Parliament, Vol. VII, March 20, 1969, p. 6894.

The government had taken the stand that now was the time to resolve the issue of regional disparities, partly because of the perceived ineffectiveness of the increasing funds that they had devoted to various programmes and partly because of the increasing importance of the issue in federal-provincial relations at that time.[3]

The political pressure exerted on the federal government by the provinces, coupled with the failure of federal efforts to achieve a reduction in regional disparities and despite the increasing funds devoted to the task under various policies and programmes, resulted in the adoption of a new approach.

The approach is characterized by two significant factors. The first is the very comprehensive nature of the programme, which involves planning, experimentation in new programmes and highly coordinated and comprehensive development plans. The comprehensive nature of the programmes were, to a large part, a determining factor in the second characteristic, that is, the heavy dependence on the cooperation and coordination of both the provinces concerned and other federal departments and agencies connected with regional development. In order to provide the necessary vehicle for this approach, the Department of Regional Economic Expension was created.

The failure of previous ad hoc measures to reduce the gap between the have and have-not provinces had been a source of frustration for the federal government for some time. Over the years, a number of federal programmes had been introduced designed to encourage development in areas of slow growth, and to reduce social as well as economic disparities. The Prairie Farm Rehabilitation Act (PFRA) had been set up in 1935 to deal with the problems in the rural areas of the West arising out of the Depression, and had

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3. See Chapter 5.

continued its programmes under the Department of Agriculture until its transfer to DREE in 1969. During the sixties, a number of other programmes were initiated dealing with rural, industrial, and social development. The major programmes were: the Atlantic Development Board (ADB);[4] the Agricultural and Rural Development Act (ARDA), 1962;[5] the Area Development Incentives Act (ADIA), 1963;[6] the Fund for Rural Economic Development (FRED), 1966; and the Cape Breton Development Corporation (DEVCO), 1967. The administration of these programmes was the responsibility of a number of federal departments, including Industry, Agriculture, and Forestry and Rural Development. Jean Marchand argued that the failure of the federal programmes to make any kind of progress was in large part due to the lack of co-ordination and planning, and the absence of a cohesive plan of action.

> In spite of the best will in the world, it is not possible to select the real priorities nor to obtain the most effective action when four or five distinct bodies are involved which fall under the jurisdiction of four or five different ministers. I am certain that the bodies under consideration have tried to avoid duplication and incoherence. However, they were unable to achieve this completely, and this led to a number of useless and ineffective efforts.[7]

The failure to reduce regional disparities was underlined by

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4. The Board, created in 1962, was primarily a research oriented body designed to advise the federal government of alternative plans of action to counter-balance the disadvantages the region faced in attempting to develop economically.

5. The Act was previously called the Agricultural and Rehabilitation Development Act, and was amended in 1966.

6. The Area Development Agency set up by ADIA was the forerunner of the industrial incentives legislation passed in 1969, the Regional Development Incentives Act.

7. Canada, House of Commons, Minutes of Proceedings and Evidence of the Standing Committee on Regional Development, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 28. Hereafter cited as Standing Committee.

the reports of Statistics Canada. Table IV-1 shows the economic indicators used by Statistics Canada to measure disparity between the provinces and regions of Canada for the year 1969.

Table IV-1

Indicators of Provincial and Regional Disparities, 1969

Province	Personal Income Per Capita		Average Weekly Wages & Salaries		Rate of Unemployment
	$	%	$	%	%
Nfld.	1,613	56	106	90	10.3
P.E.I.	1,818	63	81	69	5.3
N.S.	2,304	79	96	81	5.4
N.B.	2,080	72	97	82	8.5
Average Atlantic Region	2,032	70	n.a.	n.a.	7.6
Quebec	2,626	90	115	98	6.9
Ontario	3,365	116	122	103	3.1
Man.	2,842	98	108	91	2.7
Sask.[a]	2,516	87	108	92	3.1
Alta.	2,913	100	118	100	2.7
Average Prairie Region	2,784	96	n.a.	n.a.	2.9
B.C.	3,116	107	129	110	5.0
Canada[b]	2,906[c]	100	118	100	4.7

a. Note that, due to the poor agricultural position that year, Saskatchewan's personal income per capita was lower than that of Quebec.

b. Including the Northwest Territories.

c. Excluding the personal income of Canadian non-residents.

Source: Special Senate Committee on Poverty, Poverty in Canada (Ottawa: Information Canada, 1971), p. 51.

From the Table, it is clear that the Maritime provinces were the relative "losers" when it came to economic conditions. It was the persistent "last place" position of the Atlantic Region in terms of employment opportunities and

income which was to provide the greatest impact on the goals and priorities of the Department of Regional Economic Expansion.

The Department of Regional Economic Expansion Act (RSC, 1970, Ch. R-4) was to provide the legislative framework defining the federal government's role in the task of reducing regional disparities. It was clear from the beginning, however, that the federal government was not willing to establish the Department without some guidelines. While the government was willing to allocate considerable financial resources to the programmes, the funds were not unlimited. Consequently, the Department could not solve the problems overnight, nor could it act as "Santa Claus." It had to set priorities. It was emphasized by Marchand that DREE was not designed to eliminate poverty per se. Its approach was to be based on regions rather than on the individual, and its goals were economic development and the creation of new job opportunities.

> The job of the new department. . . must be to get down to the roots of the problems which have produced the existing disparities between regions of Canada and help make the basic economic and social changes needed to create new employment and earning opportunities available to the people who need them.[8]

> [O]ur job is to see that economic growth is dispersed widely enough across the country to provide equal access to opportunities of productive employment for Canadians everywhere.[9]

The Minister's reference to "everywhere" was qualified. The Department did not intend to allocate funds, nor spend the time and energy setting up programmes where there was no chance of success. Thus, four years later, Marchand clarified the Department's role.

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8. Canada, House of Commons, Debates, First Session, 28th Parliament, Vol. VII, March 20, 1969, p. 6804.

9. Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 28.

> The purpose of the Department is to help regions or industry where there are some potentialities or possibilities or opportunities. If there are no opportunities at all, we do not give any money.[10]

Nor was the Department going to attempt to provide employment in every hamlet or village across Canada.

> Regional development does not mean that there are going to be more jobs in every county. It does not mean that there is going to be a new plant at every cross-roads, a new wharf in every harbour. . . .
> . . . . . .
> Regional economic expansion . . . means that the points at which development takes place are widely spread across all regions of Canada. Everybody does not have to move to Toronto. But we must be clear that in the modern, dynamic economy there have to be movement and change. Our concern is that movement and change should happen within a region, not by attrition of the region.[11]

With the Department's task being limited to aiding areas of potential growth and the provision of employment opportunities, it proceeded to determine the methods for achieving these objectives. The functions deemed appropriate by the Department in achieving the objective of "regional economic expansion" involved areas of social as well as economic concern, as noted by Marchand.

> We are . . . talking not about industrial investment alone but about a whole process of development -- about education, about changing motivations, about mobility, about training, about investments in social capital, about sewers and drains and utilities, about local leadership and everything else.[12]

The Department, in cooperation with the provinces, was to undertake an extensive series of programmes involving three basic functions. The first function was the development of infrastructures, in other words, the provision of the utilities and services deemed basic to economic growth,

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10. Standing Committee, Fourth Session, 28th Parliament, Issue No. 2, April 18, 1972, p. 16.

11. Ibid., Issue No. 3, November 22, 1968, p. 30.

12. Ibid., p. 28.

such as roads, sewage, water, schools, and industrial parks. The second function was social adjustment and rural development, including such services as counselling, retraining, housing, assistance in cases where people had to move to areas of economic growth, education, and a number of programmes designed to develop the natural resources of rural areas. The final function was the encouragement of industrial development through the use of incentives. These interrelated functions, coupled with a regional framework, provided the method of achieving the objective of economic expansion.

The term "region" was purposely left flexible. The programmes were to be adapted to the particular needs of each selected area of concern, and the designation of regions and of areas were to be determined by the Department in consultation with the provinces concerned. Jean Marchand emphasized his reluctance to define rigidly the term "region" when pressed by the Standing Committee on Regional Development to do so.

> We should not have such a rigid definition of "region". We have to understand exactly what we mean when we talk about "region," but it should not be so precisely defined so that we become caught or engulfed in that definition unable to do anything if our programs do not meet this definition.[13]

Economic factors did influence the definition of "region" with indices such as rates of unemployment and potential for economic growth being taken into consideration. The selection of "designated regions" and of "special areas" within these regions was provided for in part by the Department of Regional Economic Expansion Act but the criteria to be used in selecting the "designated regions" were presented in a complementary piece of legislation -- the Regional Development Incentives Act, which was assented to in July, 1969.

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13. Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 33.

> 3. (1) Subject to subsection (2), the Governor in Council, after consultation with the government of any province or provinces, may for the purposes of this Act by order designate as a designated region, for the period set out in the order, any region, comprising the whole of that province or those provinces or any portion thereof not less than 5,000 square miles in size, that is determined to require special measures to facilitate economic expansion and social adjustment.
>
> (2) A region may be designated pursuant to subsection (1) only if the Governor in Council, upon the report of the Minister, is satisfied that
>
> (a) existing opportunities for productive employment in the region are exceptionally inadequate; and
>
> (b) the provision of development incentives under this Act for the establishment of new facilities or the expansion or modernization of existing facilities in the region will make a significant contribution to economic expansion and social adjustment within the region.[14]

A region, as defined by RDIA, could encompass more than one province (a supra-provincial approach), could correspond to provincial boundaries, or could consist of a portion of a province (a sub-provincial approach). The only stipulation with regard to size was that a region could not be smaller than 5,000 square miles.[15] It had to show definite signs of economic stress, yet at the same time, it had to have the potential for economic development. The designated regions, as of July 1, 1969, were: the provinces of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland (excluding Labrador); the eastern and northwestern sections of Quebec; and parts of Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. This selection, in

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14. Revised Statutes of Canada, 1970, Ch. R-3.

15. The province of Prince Edward Island, by itself, was thus not eligible to be a designated region under the Act, as its area was considerably smaller than the 5,000 square mile minimum. It did, however, receive a special programme involving a comprehensive development plan under FRED and became as part of the Atlantic region, a designated region.

effect, ensured something for every province.

Within the "designated regions," which provided the geographic boundaries for the RDIA programme, "special areas" were to be established where the federal and provincial governments would concentrate their efforts with regard to the provision of infrastructures. It was recognized by the DREE officials and the various interested parties in the Atlantic Provinces that to reach the objective of economic expansion, "viable growth centres" would have to be developed which would attract both industry and people. Thus, "special areas" were to be selected from within the designated regions. These areas were either the existing centres of economic activity or had the potential to become so.

Six classifications of areas were adopted in 1969. These were: Type 1: major existing urban centres in Eastern Canada which could become the "focal point" of any economic development;[16] Type 2: centres which have the potential to become focal points of economic development, due to their location and proximity to transportation, especially water, and proximity to natural resources;[17] Type 3: "areas to which people are moving from the outports [of Newfoundland] and where it is possible to provide better services;"[18] Type 4: northern Prairie centres where potential resource-based industries may be developed and which could become focal points of economic opportunity;[19] Type 5: the cities of Regina and Saskatoon and the surrounding areas,

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16. The areas were: St. John's, Newfoundland; Halifax-Dartmouth, Nova Scotia; Saint John and Moncton, New Brunswick; Quebec City and Trois-Rivières, Quebec.

17. The areas were: the Strait of Canso area, Nova Scotia; Sept-Isles-Port Cartier area, Quebec; and Corner Brook, Newfoundland.

18. Five areas were selected in Newfoundland and one in Labrador.

19. The selected areas were: The Pas, Manitoba; Meadow Lake, Saskatchewan; and Lesser Slave Lake, Alberta.

which were selected because of the particularly difficult and unusual economic conditions the Province of Saskatchewan was faced with at that time; and Type 6: areas with the potential for the forest industry and processing industries related to the primary resource development in the provinces of Ontario and Quebec.[20] All of these areas were selected specifically for their potential to become centres of economic expansion if development of the natural resources of the surrounding areas could be achieved and, as a result, industries could be attracted to them. The locations selected were in some cases very specific, and were "special" due to either short-term "emergency" situations, or to the long-run economic potential of the larger region of which they were a part.[21]

The Department was not to be hampered by a rigid classification system when working with regional disparities. Thus, in addition to sub-provincial units in their special areas section, and RDIA's provincial and supra-provincial classifications, the Department used a three-region classification in submitting its expenditure requests to Parliament. The three areas, Canada East (the Atlantic provinces), Canada Centre (Ontario and Quebec), and Canada West (the Prairies and British Columbia), appear to have been used merely as a means of reporting the estimates in an efficient manner. Another approach used by the Department was to emphasize the similarity between the northern areas of the

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20. The areas were: the Renfrew-Bancroft area, Ontario, and Lac-Saint-Jean, Quebec. The description of the six types of areas was made by Mr. Tom Kent, Deputy Minister, Department of Regional Economic Expansion, to the Standing Committee, Second Session, 28th Parliament, Issue No. 2, March 24, 1970, pp. 10-12.

21. Note that in the case of Regina and Saskatoon, and later, Montreal and sections of Ontario, special areas were designated which were not part of larger designated regions. In these cases, the emergency economic conditions, with extremely high unemployment rates in comparison to the normal rates, were the major reason for the designations.

three Prairie provinces. The peculiar problems facing this "Northern Prairie" region, as opposed to the Prairies in general, led to the development of this grouping. Moreover, while DREE accepted the traditional Atlantic region concept as being functional for some policies, it also established programmes on a smaller scale, thus recognizing intra-regional differences. Thus, the concept of region was to remain fluid, restricted only by the limits imposed by specific programmes or plans falling within the three functional areas of the department. These three divisions were supplemented by a fourth which was responsible for policy development and the setting up of programmes. This branch was the one which was involved in negotiations with individual provincial governments.

The functions of industrial development, infrastructure assistance, and social adjustment and rural development were all very closely integrated. This coordination was in accord with the philosophy of the department that the total picture must be considered when attempting to overcome the problems of slow-growth areas. Consequently, programmes assigned to each area overlapped to some degree, and coordination between the branches of the department and other departments was vital. A brief examination of the various programmes indicates the complexity of the approach under DREE.

The industrial development section of the Department has been carried out through two programmes -- the Area Development Incentives Act, which was passed in 1963, and the Regional Development Incentives Act of 1969. Both policies have used the incentives-to-industry approach to attempt to lure firms to slow-growth regions, thereby providing increased job opportunities. The Area Development Agency concentrated on grants based on capital costs of the firms. The result was often that the industries attracted to the slow-growth areas were capital rather than labour

intensive. Since the Department of Regional Economic Expansion was concerned with the over-all development of the slow-growth areas, and was determined that employment opportunities be increased, it resolved to rectify the situation through the supplementary legislation of RDIA. Eventually, the RDIA legislation replaced the ADA programmes, although commitments signed under the latter were to be honoured.

The legislation creating RDIA contained a double formula for determining the grants to be made available to firms. The first criterion in determining the size of a grant was based on capital costs; the second on the number of jobs created as a result of the grants.

> The point of the double formula is to avoid favouring highly intensive industries, which is what tended to happen under the old ADA program where the incentive was related purely to fixed capital cost.[22]

The industrial incentives, Jean Marchand emphasized, would be of particular interest to Nova Scotia, New Brunswick, and eastern Quebec.

> The new program will be considerably different from the present one, and I believe will be much more effective in creating new, permanent and viable employment. This program will be especially important for Nova Scotia, New Brunswick and eastern Quebec, though it will be of considerable importance to slow growth areas in all provinces.[23]

The industries were to be induced to settle in designated areas by favourable tax-free grants and loans. It was recognized that in order to make the incentives programme viable, the necessary infrastructures would have to be available in order to provide the utilities and services needed by the firms for a stable economic base.

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22. Kent, Standing Committee, Second Session, 28th Parliament, Issue No. 2, March 24, 1970, p. 20.

23. Canada, House of Commons, Debates, First Session, 28th Parliament, Vol. VII, March 21, 1969, p. 6980.

The federal-provincial agreements covering the infrastructure programmes of the Department were also of great importance to the overall programme of economic expansion. Comprehensive plans, agreed to by the federal and provincial governments, designed to bolster the infrastructure of the "special areas" were drawn up across Canada.

> The purpose of infrastructure assistance is to help communities develop the physical and social capital that is required to facilitate economic growth. The principal program for this assistance is the Special Areas program through which federal financial assistance is provided under federal-provincial agreements for the construction of water and sewer systems, industrial parks, roads, and bridges, port facilities, schools and serviced residential land.[24]

The second programme of the infrastructure assistance branch was the special highways agreement signed with certain Atlantic provinces designed to provide improved road transportation facilities. Because of the financial implications, the federal government was reluctant to offer this particular programme to all special regions and this led to its decision to provide special legislation rather than incorporate the assistance under the special areas programme. This branch of DREE is closely tied to the third function of the Department -- social adjustment and rural development programmes, which are, in large part, carried on by legislation predating the Department -- ARDA, FRED and PFRA.

The social adjustment and rural economic development branch of the Department "encourages people to take advantage of new opportunities in the use of natural resources to increase their incomes."[25] It is also concerned with the training of people to ensure that they are in a position to take advantage of improved economic opportunities.

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24. Canadian Tax Foundation, National Finances, 1972-73 (Toronto: Canadian Tax Foundation, 1973), p. 149.

25. Ibid., p. 151.

Thus, the programmes include counselling, education, and retraining services, as well as programmes designed to make better use of farm lands (under ARDA, FRED, and PFRA), and to develop industries based on the natural resources of the region, such as forestry and fishing, or the tourist industry.

The ARDA agreements have become, in effect, five-year plans, and have concentrated on the development of the primary resources of the regions. As a shared-cost programme, ARDA's agreements between federal and provincial governments highlight the importance of the provincial presence, since the administration of the programmes is left to the provincial governments. The emphasis on the development of the natural economic potential of the region is shown by the agreements in the Prairies and in the Atlantic region. In the Prairies, the agreements have been concerned with farm consolidation, livestock production, and the tourist industry. The programmes in the Atlantic region have involved both the development of the fishing industry and the tourist industry. The social aspect of ARDA is exhibited by the special agreements signed with the Prairie Provinces which were related to the particular social conditions facing a large number of Metis and Indian peoples who suffered from a noticeable lack of participation in the general prosperity of the provinces. Special ARDA agreements covering areas containing a large proportion of this segment of the population were signed with the individual provinces concerned. The agreements in these cases were primarily concerned with social adjustment programmes, such as training, counselling et cetera. It was believed that these services would give the people a better background for entering into the general economic prosperity of the region.

The social adjustment programmes were also incorporated into NewStart corporations, first established in 1966. The programme "was designed to provide experimental

projects to test and develop new methods of preparing people in designated and special areas for employment."[26] As of December, 1971, corporations had been established in the provinces of New Brunswick, Nova Scotia, Prince Edward Island, Manitoba, Saskatchewan, and Alberta. This programme, however, is being phased out, probably due to the overlapping with other programmes in DREE and the lack of direct control by the Department over the actions of the corporations.

Special programmes have been designed for regions showing particularly acute problems. A programme was developed to cover the whole of Prince Edward Island, an agreement involved in almost all segments of the Island's economic and social life. The FRED programme is a fifteen year plan with a total budget of $728 million. The federal contribution is $225 million plus a minimum of $36.6 million in interest-free loans to the provincial government. The actual federal contribution is much more -- a point emphasized by Marchand in the House of Commons.

> [T]aking the total amount of each party's contribution, meaning $500 million to be provided by Prince Edward Island as against the relatively modest contribution of $225 million from the federal government, is not a very fair way to present the problem, for . . . included in this sum of $500 million from Prince Edward Island is a large portion of its regular budget, meaning that several things that have been included in the project are part of the normal services and activities of the province, of which we pay about 60 per cent of the budget through the tax equalization program.[27]

The services to be provided in the special agreement were included in such responsibilities as education, assistance in the infrastructures of roads, bridges, water and sewage facilities and the development of natural resources. Other

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26. National Finances, 1972-73, pp. 153-54.

27. Canada, House of Commons, Debates, First Session, 28th Parliament, Vol. VII, March 21, 1969, p. 6982.

areas of concern were manpower retraining and health and welfare programmes.[28] A special programme was also signed with Newfoundland, which, in addition to the comprehensive plans for economic development similar to those for Prince Edward Island, were resettlement programmes. The objective was to move families from isolated outports, where the economic and social conditions were unacceptable, to areas where better economic opportunities and social services could be developed.

The use of the public corporation in encouraging economic development in slow-growth areas gained some acceptance with the creation of the Cape Breton Development Corporation in 1967. DEVCO was set up to deal specifically with the rapid decline of the coal industry located in the region. This sector had been in great difficulty due to the higher costs incurred in extracting the coal from further and further out underneath the sea floor. DEVCO was to decrease the dependence of the region on the coal industry and open up, if possible, other coal mines which would be more economical. As in most public corporations, DEVCO was partly independent of the government, and was to advise the minister responsible for DREE (after 1969) of possible plans for development in the area. The lack of control resulted in some hesitation on the part of the Department when considering the establishment of similar institutions elsewhere.

Despite some reservations, however, the special conditions in the provinces of Newfoundland and New Brunswick resulted in the establishment of two other corporations designed to promote economic expansion. Newfoundland's economic position had not changed in the years between 1969 to 1971 despite the ambitious projects undertaken by the federal and provincial governments. Due to the persistence

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28. National Finances, 1972-73, p. 153.

of the high unemployment, and the economic base of the island, the decision to set up a public corporation was announced by Jean Marchand in 1971.

> The fact remains that the economy of Newfoundland, to a much greater extent than elsewhere, is made up of a large number of relatively small businesses. Many of these are of a size which would make it impracticable for our incentives program to be extended to them. Accordingly, after discussions with the Government of Newfoundland, I am proposing to my colleagues in the federal government that a special development corporation be established under provincial law to provide technical and advisory services of all kinds to entrepreneurs in Newfoundland, to help investors in that province take advantage of our incentives program and of the other programs of the Department, to assist in equity financing, and to provide loans to small investors so that they can modernize and expand their facilities or establish new ones.[29]

In the case of New Brunswick, the lack of success in the incentives programme in the special area of Saint John resulted in the decision to set up the New Brunswick Multiplex Corporation Limited. Moreover, it introduced a new approach in the attempt to develop an industrial base in the special area.

> On a joint basis with the province, we are going to try to establish a complex of metal working plants in the Saint John area of New Brunswick. This step is being taken in recognition of two fundamental facts. First, while industrial incentives can be effective in stimulating industries which have a resource affinity with a region or in attracting the more truly "footloose" industries, these effects may not add up to the major development thrust that a slow-growth region needs to break out of its cycle of stagnation. The second fact is that for many types of modern industry the critical location factor is the absence of technologically related and ancilliary operations. In the absence of these, an individual plant cannot rely on getting replacement supplies, specialized components and technical

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29. Standing Committee, Third Session, 28th Parliament, Issue No. 6, March 29, 1971, p. 13. Mr. Marchand later explained that the federal government would participate in the corporation. Ibid., Issue No. 7, March 21, 1971, pp. 6-7.

services when it needs them.

. . . . . .

> [A] corporation called New Brunswick Multiplex Corporation limited [will be acting] as our agent in promoting the establishment of a multiple industry complex in Saint John.[30]

The multi-complex approach introduced here was a result of the continual assessment of its programmes that the Department underwent, both on its own initiative, and through the scrutiny of other interested parties -- the Opposition in Parliament, the provincial governments, and concerned interest groups.

A number of problems were expected by the Department to crop up as its programmes were developed and administered. The most important of these was the necessity of ensuring the cooperation of both the provincial governments and the various departments in the federal government. The comprehensive nature of the new approach, which involved all facets of social and economic life, meant this cooperation was vital to the success and even the survival of the Department.

> [I]t is not only a problem of having coordination among the different departments of the federal government but with the provinces too, and if we cannot obtain this cooperation of course we are paralyzed -- there is no doubt in my mind about that.[31]

Coordination within the federal government was needed to ensure that the efforts of DREE were not impeded by the actions of other departments and agencies. The minister was given the power to coordinate the federal programmes related to regional development by the Department of Regional Economic Expansion Act. Referring to the special areas which were to be set up, the Act stipulated:

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30. Standing Committee, Issue No. 6, p. 15.

31. Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 35.

> 7. (1) . . . the Minister shall
> (a) in cooperation with other departments, branches and agencies of the Government of Canada, formulate plans for the economic expansion and social adjustment of special areas; and
> (b) with the approval of the Governor in Council, provide for coordination in the implementation of those plans by departments, branches and agencies of the Government of Canada and carry out such parts of those plans as can not suitably be undertaken by such other departments, branches and agencies.[32]

Inter-departmental cooperation was not something that simply could be legislated into existence, however.

> There is the matter of attitude. We have this problem of airports, for example. If we have a depressed area which would be helped by an airport and the Department of Transport decides to build the airport somewhere else, without any serious reason, and we do not have an opportunity to discuss it, then of course what we are doing is to a certain extent useless. I agree that this is probably the main problem but I do not think it can be solved by law. It becomes a problem of attitude of the Cabinet and the other ministers.[33]

An interdepartmental "consultation structure " was developed to ensure "the regional and area considerations are always . . . taken fully into account before the final decision is made in areas affecting regional development."[34] The effectiveness of this communication link depended as much on attitude as on the provision of structures themselves. To further the inter-departmental coordination, a "coordination and liaison" branch within the Department of Regional Economic Expansion was created in 1972. Since many federal policies affect regions, the task of coordination appears to be considerable and it is premature to assess its effectiveness.

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32. Revised Statutes of Canada, 1970, Ch. R-4.

33. Marchand, Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 34.

34. Kent, ibid., p. 34.

The cooperation and coordination between the federal and the provincial governments was also of vital importance to the survival of the Department. Cooperation was to be assured by meeting with the provinces "to discuss all the problems and to try to see how we can solve them within our respective jurisdictions."[35]

> The key to avoiding difficulties of course is the closeness of the common consultation, discussion and cooperation that there is at the very earliest stage in developing plans.[36]

The integration and consultation needed in the planning and administration of programmes was to be achieved through the use of committees and working groups. A Joint Planning Committee was created to ensure that the consultation necessary in the early stages of developing the programmes for the various designated regions or special areas was ensured. Moreover, to ensure the coordination necessary between various federal and provincial departments associated with a particular plan, Joint Working Groups were established where the federal and provincial officials and delegates would discuss the policies and programmes.[37]

The division of powers between the federal and provincial governments was to be respected in the implementation of programmes under the Department of Regional Economic Expansion, despite the need for cooperation and coordination between the two levels of government. The question of the degree of control that the federal government, through DREE, was to exert in the programmes was a serious issue, and one which involves the federal spending power.

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35. Marchand, Standing Committee, First Session, 28th Parliament, Issue No. 3, p. 35.

36. Kent, op. cit., p. 35.

37. See the organization chart of the Department of Regional Economic Expansion, Appendix A, Standing Committee, Fourth Session, 28th Parliament, Issue No. 1, March 28, 1972, p. 66.

The federal government was allocating considerable financial resources to the programmes, and it was natural that they felt that they had a right to influence the spending of the monies. The provincial governments, on the other hand, were jealous of their responsibilities given them under the British North America Act, and as the programmes were heavily involved in provincial areas of jurisdiction, they demanded that their priorities and ideas be taken fully into account. The conflict between the two levels is alluded to briefly by Mr. Kent, when referring to the designation of special areas.

> [I]t is a genuine joint process in which one finds that while our role certainly is that special financing is being provided and, therefore, one would expect that we would have a very large say, in practice, in a working negotiating relationship, it sometimes feels as if we do not have enough say -- this is not a criticism. . . .
>
> . . . . . .
>
> Everything covered by these infrastructure agreements is in provincial jurisdiction. The agreements would not be necessary otherwise. If they were in federal jurisdiction, then the federal government would just do the work.[38]

The problem, then, was the difficulty involved in working out an arrangement acceptable to both levels of government, when monies were made available by the federal government (either in toto or in part), and the responsibilities for the most part lay within the jurisdictions of the provincial governments.

Another problem facing the Department of Regional Economic Expansion and one which has been continually raised, is the question of priorities.

> [T]here are many underdeveloped regions in Canada, not only one. The point I would like to underline is that we cannot work efficiently in all regions at the same time. It is impossible. We cannot

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38. Standing Committee, Second Session, 28th Parliament, Issue No. 2, March 24, 1970, p. 64.

> afford it. Probably it would cost billions of dollars to do it, so we will have to make a choice. We will have to start with those that are in the worst shape and try to help them and ask the others to wait a little.[39]

The decision to favour certain regions was bound to create hostility in other sectors of the country. It is interesting to note that the federal government managed to designate at least one part of every province as an area of concern, however, the Minister, Mr. Marchand, emphasized that the first priority would be to programmes in the regions of slow-growth in the Atlantic provinces and in eastern Quebec.

> I think the greater part of our efforts will be in the Maritimes or in Eastern Canada. That does not mean we are not going to worry about what is going on, say, in Northern Ontario, or Manitoba, or in the northern parts of Saskatchewan or Alberta, but I think we will make a special effort for the Maritimes or Eastern Canada.[40]

The decision to concentrate the energies of the Department on "Eastern" Canada is demonstrated by the monies spent in this area compared to the other regions of Canada. Table IV-2 shows the distribution of funds under DREE between the three regions in 1972-73.

Table IV-2

Department of Regional Economic Expansion: Distribution of Funds, 1972-73

Canada East		Canada Centre		Canada West	
$ Millions	Per Capita	$ Millions	Per Capita	$ Millions	Per Capita
102.8	$49.39	55.9	$4.05	4.2	$1.07

Source: Standing Committee, Fourth Session, 28th Parliament, 1972, Issue I, Appendix A.

39. Marchand, Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 38.

40. Standing Committee, First Session, 28th Parliament, Issue No. 8, March 13, 1969, pp. 140-41.

The determination of the Department to concentrate on the slow growth areas of the Atlantic region, and the per capita discrimination between Canada West and Canadas East and Centre rankled the Western Provinces. The concern that the development of the slow-growth areas in the West with great potential for expansion was being ignored by the federal government was expressed by the western premiers at the Western Economic Opportunities Conference in July, 1973. The premiers argued forcefully that the federal government should concentrate more effort on the Western region, and that, on top of this, the slow growth of western industrial development was due in part to federal programmes.

Thus, Premier Schreyer of Manitoba emphasized:

> While there are a variety of factors which may account for Canada's disproportional development, it is our feeling that the influence of certain federal policies has been especially significant. It is generally accepted, for example, that national transport and tariff policies have played a large part of the economic expansion of Central Canada, at times at the expense of the West.
>
> Similarly, various industrial assistance programs have provided relatively little encouragement to growth in Western Canada.
>
> . . . . . .
>
> Similar inequities have been experienced in respect of assistance through the Export Development Corporation and through DREE's industrial incentive program.
>
> . . . . . .
>
> Along with the Premiers of the sister provinces of the West, I believe that the Federal Government should provide much greater support to the industrialization efforts of Western Canadians. In particular, we contend that all federal policies relating to industrial expansion . . . should be designed so that they will not discriminate against the Western Provinces and will instead help us to realize our full development potential.[41]

Premier Blakeney of Saskatchewan reiterated the need for the

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41. "Verbatim Report of the Western Economic Opportunities Conference, Calgary, July 24-26, 1973." July 24 (morning), pp. 31-33. Unofficial copy.

development of the industrial sector in the West.

> We need secondary manufacturing to provide jobs for our young people.
>
> . . . . . .
>
> In the past, Governments, federal and provincial have talked about promoting secondary industry in the West.
>
> Indeed, in the past few months, the federal Department of Regional Economic Expansion has stated the situation almost exactly as I have stated it today.
>
> So we, all of us, appear to be in agreement on our basic objectives.
>
> If this is so, why haven't we achieved them?[42]

The dissatisfaction of the West with the discriminatory policies of DREE, which were intentionally favouring the Atlantic provinces rather than slow-growth areas across Canada, coupled with the dissatisfaction of all provinces with the centralization of the Department in the decision-making processes and the allocation of funds, was recognized by the Department in 1972. A process of re-negotiation was begun, which is still in progress. This new approach emphasized the role of provincial governments in policy formulation and the administration of programmes. It was announced that the Department would be decentralized, with regional offices being introduced. Moreover, the regional differences in all provinces of Canada would be taken into account more fully than they had been in the past. Thus, the provinces' participation, which had been recognized at the outset of DREE, would be given more attention. The difficulty of providing a general framework which would fit the requirements of all areas in Canada was to be overcome by the increasing decentralization of the Department.

> Regional economic development poses complex problems that vary from period to period and from place to place in Canada. No simple nor single solution is likely to be found. New and more flexible approaches are considered necessary and it is hoped

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42. "Verbatim Report of the Western Economic Opportunities Conference," pp. 39-40.

> that the discussions with the provincial governments will lead to greater and increasingly more effective federal-provincial action to overcome regional disparities and to encourage economic and social development in the slow-growth parts of Canada.[43]

The decision by the Department to involve the provinces more fully in the area of industrial incentives and to provide regional offices was announced in May by the new Minister, Don Jamieson.[44] The determination by the federal government to continue the expansion programmes in the slow-growth areas of Canada, with continued negotiations with provincial governments, has resulted in alterations both in philosophy and in practice to the Department. The industrial incentives programme under DREE, for example, was in the future not to be restricted to the designated areas but to industries in all areas with slow-growth problems.[45] Moreover, the new Minister emphasized the necessity of cooperation between the federal government, with its national priorities, and the provincial governments, with their particular programmes and problems.

> The proliferation of public programs over the last 25 years has made improved government co-ordination a matter of some urgency in our society.
>
> . . . . . .
>
> . . . I am talking about co-ordination in pursuit of limited and carefully defined objectives related to major developmental opportunities that have been identified jointly by the two senior levels of government. It seems to me that this kind of co-ordination should be regarded, not just as possible, but as something close to essential.[46]

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43. Department of Regional Economic Expansion, Western Region: Economic Circumstances and Opportunities (Ottawa: April, 1973), p. i. A Staff Paper Prepared for the Western Economic Opportunities Conference .

44. Edmonton Journal, May 31, 1973, p. 25.

45. Ibid.

46. Don Jamieson, Standing Committee, First Session, 29th Parliament, Issue No. 2, April 10, 1973, p. 23.

The degree of federal-provincial consultation carried on by the Department is one of the most important characteristics of its approach in its endeavours to reduce regional economic disparities.

Jean Marchand, when the Department was first established, emphasized that the programmes were of a medium-term nature, and that the effects would not be necessarily immediately apparent.

> [W]e shall not have recourse to short-term expedients or to vague long-term intentions. We want to realize constructive, practical projects on a short-term basis. Hence, we shall include in our planning all the various efforts which we intend to undertake during the next fifteen years.[47]

The range and variety of the Department's programmes meant that experimentation was inevitable, and experimentation invariably leads to mistakes and, as a result, to modification. Programmes were criticized in Parliament and by various affected groups across the country. The Department itself continued to assess its programmes, altering them, and renegotiated agreements with the provincial governments. It is beyond the scope of this thesis to examine whether or not the Department was or was not successful, if in fact with only four years of their plan gone such a task is possible. The programmes are still in their infancy, and any progress will not as yet have really made its total impact.

Nevertheless, the creation of the Department of Regional Economic Expansion is an extremely important component of federal-provincial relations. The degree of consultation and cooperation needed in achieving the goals of the Department has resulted in the Department becoming a major factor influencing relations between the two levels of government.

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47. Marchand, Standing Committee, First Session, 28th Parliament, Issue No. 3, November 22, 1968, p. 29.

> . . . I think members of the Standing Committee on Regional Development know that the great bulk of the Department's activity has been carried out under federal-provincial agreements, providing it with a unique and challenging experience with cooperative working arrangements between the two senior levels of Canadian government.[48]

The increasing funds allocated by the federal government to regional development, in an effort to reduce the disparities between the "have" and "have-not" provinces of Canada, indicates the importance of this issue in Canada. Table IV-3 shows the total expenditures of the Department from the years 1968-69 to 1972-73, with the forecasted expenditures in 1973-74.

Table IV-3

Department of Regional Economic Expansion
Expenditures, 1968-69 to 1973-74

Year	$ Million	% Change
1968-69	125.7	--
1969-70	179.4	42.7
1970-71	260.5	45.2
1971-72	308.6	18.5
1972-73	320.9	4.0
1973-74	513.0[a]	n.a.

a. This figure is not comparable with the other years, for it forecasts not only the budgetary, but the non-budgetary expenditures. However, the forecast for 1972-73, for both budgetary and non-budgetary expenditures was $452 million, thus the increase for the total expenditures was 13.5%.

Source: Canada, House of Commons, Debates, First Session, 29th Parliament, Vol. 117, June 1, 1973, p. 59; and Jamieson, Standing Committee, First Session, 29th Parliament, Issue No. 2, April 10, 1973, pp. 4-5.

48. Jamieson, Standing Committee, First Session, 29th Parliament, Issue No. 2, April 10, 1973, p. 7.

The federal commitment to continue agreements with the provinces and to increase annually the amount budgeted specifically for regional development through DREE indicates the importance of this policy area. While the dollar terms may be insignificant in many respects, it must be remembered that this is only one of a number of federal policies designed to overcome the problem of regional disparities.

The Department of Regional Economic Expansion, while it may be altered as a result of new approaches or through federal-provincial negotiations, has become an important vehicle in the attempt to resolve the contentious issue of regional disparities in Canada. The importance of this issue in federal-provincial relations in recent years is borne out by the attention focused on it in the constitutional conferences in the years 1969 to 1971, where the federal and provincial governments struggled to provide Canada with a new constitution and a new approach to government. Regional disparities was once again an issue of dispute between the various governments of Canada.

CHAPTER V

CONSTITUTIONAL REFORM AND THE ISSUE OF REGIONAL DISPARITIES

The growing concern with the persistence of regional disparities resulted in its inclusion in the discussions of constitutional reform which took place during the period 1967 to 1971. The Confederation of Tomorrow Conference, convened by Premier Robarts in 1967, gave first expression to the determination of some provincial premiers that the British North America Act needed to be re-examined and revised in the light of the nation's development since Confederation. At that inter-provincial conference, it became evident that the major issues confronting Canada were: first, the bi-cultural nature of Canada; second, regional disparities; and finally, federal-provincial relations in general. The relative importance of each of these topics varied amongst the provinces. Thus, for example, while Quebec and Ontario spoke at great length on federal-provincial relations and the role of the French and English cultures in Canada, the Atlantic provinces were far more concerned with the presence of social and economic disparities between the regions. Premier Robichaud of New Brunswick stated:

> Canada must do more to overcome regional economic and social disparities in the Confederation of tomorrow. It is my firm conviction that severe and persisting disparities in the levels of services and in the range of opportunities do much to fragment Canada, possibly much more in the end than differences of language and culture.
>
> Cultural variety can enlarge the freedom and the humanity of every person. Economic and social deprivation can only diminish life. Great gaps between the regions of Canada with respect to

> services and opportunities can only serve to exclude many thousands of people from meaningful participation in the Canadian community.[1]

The interest shown in discussing the constitutional implications of these topics varied amongst the provinces. Premier Johnson of Quebec emphasized the importance of writing a new constitution which would reflect the modern-day problems facing the country. Premier Smallwood of Newfoundland, however, was not very concerned about discussing possible constitutional reforms.

> "[Ill] fares the land to hasten the ills of prey where wealth accumulates and men delay and the rich get rich, and the poor get poorer" -- the rich provinces get richer and the poor provinces don't get poorer, but they get poorer in relation to the rich ones. This is the problem.
>
> . . . . . .
>
> Now do you expect us seriously, if you won't interest yourselves in this side of the Canadian problem, do you seriously expect us to get all hot and bothered and excited about constitutional changes? Do you seriously? I tell you, you will be wasting your time.[2]

The problems encountered by some provinces seemed only remotely connected to constitutional reform, while the concerns of other provinces, and particularly Quebec, were very much related to the division of powers and the cultural provisions contained in the Constitution.

It was recognized that, in order to get discussions of constitutional reform off the ground, the particular areas of concern of both levels of government, and the individual provinces as well, would have to be included. Thus, when the first Constitutional Conference was convened by Prime Minister Pearson, regional disparities was one of the topics to be discussed. Premier Smith of Nova Scotia had specifically

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1. The Confederation of Tomorrow Conference, Toronto, November 27-30, 1967; Proceedings (Toronto: Province of Ontario, mimeograph, 1968), p. 19.

2. Ibid., pp. 30-31.

asked that it be included on the agenda.[3] Since the issue did not seem to fit into discussions on constitutional reform, Premier Smith felt obliged to justify its inclusion.

> The conference so far has been dealing principally, indeed entirely, with constitutional questions. It seems to me that one of the most important considerations that we ought to have in mind is, what we want a constitution really to do. As I think I may have said on another occasion, surely what we wanted to do is to provide the best environment we can in which Canadians can live and develop to their full potential. This, it seems to us, requires that in so far as the constitution can, it should provide the best possible means for fostering balanced regional economic growth. This is a question that has long been considered by many to be one of the most pressing problems with which Canadians must deal.[4]

The goal of regional economic development then, was to be aided as much as possible by constitutional provisions. In the beginning, it was not clear exactly how this was to be achieved, other than by ensuring that the federal government had the strength and authority to aid the provinces, either financially or through specific federal programmes.

At the outset, it had been emphasized by the federal government that it had not called the conference in order to provide the provinces with the opportunity to reduce the powers of the central government. Prime Minister Pearson, in his opening statement, emphasized the importance of maintaining a strong central government. A major justification for this position was linked to regional disparities.

> [The] federal government will, of course, be receptive to the wishes and open-minded to the proposals of every province. But I would be less than candid if

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3. "I wish to thank you, Mr. Chairman [Prime Minister Pearson], for having agreed to Nova Scotia's request to place on the agenda for this conference the matter of regional economic disparity." Constitutional Conference: Proceedings, First Meeting, February 5-7, 1968, Ottawa (Ottawa: Queen's Printer, 1968), p. 73.

4. Ibid., p. 335.

> I failed to point out that there are certain federal positions which must be maintained. The federal government must be strong enough to carry out its responsibilities for moderating economic fluctuations and for promoting balanced economic growth. It must be able to promote economic equality for Canadians in all parts of the country and for every economic region.[5]

It is evident that this position was whole-heartedly supported by the Atlantic premiers. The difficulty encountered by other provinces was in interpreting what powers were necessary to achieve these national objectives.

It was the task of the "have-not" provinces to convince the other provinces and the central government of the necessity of greater federal participation in promoting regional economic development. The vastness of the task, as seen by these provinces, resulted in their advocating that the central government be given the authority to participate in economic and social endeavours to achieve a reduction of regional economic and social disparities. Premier Smith, in introducing the topic of regional disparities, emphasized the historic role of previous national policies which had resulted in the existence of regional disparities.

> [There] was a policy which was followed by the federal government for many years -- the national policy under which people in all regions of Canada were encouraged to buy and sell for the most part Canadian goods in order to encourage . . . economic development of Canada. And Canada has, as a whole, benefitted very greatly; and because Canada has benefitted, so did Nova Scotia.
>
> But this policy has been better for some regions of Canada than it has for other regions. The result of this policy . . . was to centre development in some regions while other centres remained underdeveloped.
>
> Our submission now is that we in Canada need a contemporary extension of this policy, or a new one similar to it, to assist those regions which remain underdeveloped. . . .[6]

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5. Constitutional Conference, February, 1968, p. 15.

6. Ibid., pp. 339, 341.

Nova Scotia, then, called for a new national policy designed to reduce the gap between the poorer provinces and the national average. A strong federal government was a prerequisite for the initiation of any such policy, for economic development depended upon massive financial aid and assistance for economic and social development. A federal commitment was needed to support a national development policy "which is frankly regional in application and which is of a massive size."[7]

The conference conceded that regional disparities ought to be reduced. The question was how -- what role was the federal government to play? Since the solution obviously involved areas of provincial jurisdiction, what limits were to be imposed on the central government? The problem is reminiscent of the question, "Which comes first, the chicken or the egg?" Which does one solve first, regional disparities and then the division of powers, or the division of powers and then regional disparities? The answer, it appears, depended upon each province's attitudes which were influenced by their motives for constitutional reform.

A major topic of the conference in discussions on the federal spending power and regional disparities was the federal policy of equalization payments to provinces. The chief opponent of these payments was W.A.C. Bennett, Premier of British Columbia. His attack was first launched during the February, 1968 conference.

> [The] whole thought behind government policy should be achieving similar wages across this free exchange Canada of ours -- then you would not need equalization payments between provinces, because if the income per capita was the same in all provinces no equalization would be necessary for provincial governments. Giving equalization payments to provinces only puts a little salve on the sore, it doesn't correct it. In all the years they have

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7. Constitutional Conference, February, 1968, p. 343.

> been paid, Mr. Prime Minister, all parts of Canada have increased, but there is comparatively the same differential between the five different regions. It is not a solution.[8]

While British Columbia protested that equalization had failed because the principle of payments to governments was false and that the proper method to equalize opportunity was through payments to individuals, the Atlantic provinces believed that equalization payments to the provinces were vital to any reduction in the gap between the "have" and the "have-not" provinces. They argued that the problem was not that the principle was wrong, but that the payments had not been large enough. Premier Smallwood emphasized that, while no province liked being in a position of having to receive equalization payments, they were vital to Confederation as long as the gaps remained.

> What equalization payments amount to is this: a sort of unwilling maybe, unhappy perhaps, recognition on the part of Ottawa that there are five provinces in Canada, maybe six, that are losing out in the Canadian race, and they have got to be helped. That is what equalization payments mean: that Ottawa has got to give them what they can't get themselves. That is what equalization payments mean, and as far as it goes it is all right, the trouble is it does not go far enough.[9]

The remedy lay in increased federal assistance to the poorer provinces, both in terms of transfer payments and federal programmes designated to promote economic development in the "have-not" regions of Canada.

While Ontario supported the principle of equalization payments to provincial governments, Premier Robarts expressed concern that the ever increasing transfers would continue in perpetuity.

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8. Constitutional Conference, February, 1968, pp. 355, 357.

9. Ibid., p. 377.

> In Ontario, . . . we accept the principle [of equalization] and we practice it, but it cannot be the final answer to the problem.
>
> . . . . . .
>
> . . . I do feel the time has come for us to re-think this concept of economic disparity, and see if we cannot arrive at means whereby we can make various areas and regions of the country self-supporting from the natural assets that they have.[10]

Ontario was also concerned with the "old-fashioned" approach of equating "regional" disparities with provincial boundaries.

> We have problems in Ontario. They may be of greater or lesser degree than in other parts of the country, but within our province itself there is great economic disparity.
>
> . . . . . .
>
> [Perhaps] this is one of our major problems, that we do attack this whole problem within the concept of what are basically artificial boundaries, as economic development does not recognize political boundaries.[11]

Quebec also supported the attack on regional disparities, and presented a proposal to supplement the equalization payments to the Atlantic provinces. She emphasized, however, that policies must deal with disparities and underdevelopment in all areas where attention was needed.

At the first meeting, then, the first ministers agreed that the issue of regional disparities was of grave concern and that new policies were needed to reduce the gap between the regions in Canada. It was not yet clear how the constitution could be used as an instrument to promote economic development. Nevertheless, the Maritime provinces were not about to give up the opportunity to right the wrongs of the Confederation settlement, and were anxious to use the vehicle of constitutional reform to discuss the issue of regional disparities. The prospects of enhancing

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10. Constitutional Conference, February, 1968, pp. 417-19.

11. Ibid., p. 417.

their financial position did not escape the other provinces as well.

The Constitutional Conference was reconvened in February, 1969 to resume discussions and negotiations. In between meetings, the Continuing Committee of Officials[12] had attempted to come to grips with the specific issues involved in constitutional reform within the general framework established by the first Conference. Various papers and reports resulting from their work were presented to the second meeting of the Conference. The issue of regional disparities was one of the items to be discussed.

Once again, one of the most important aspects of the debate was the question of equalization payments. The link between these payments and the discussions concerning the division of taxing powers became apparent during the meeting. The federal government emphasized that the continuation of the equalization payments was not negotiable. It was an important part of the federal government's attempt to help the poorer provinces. As Prime Minister Trudeau stated, the principle of equalization payments "cannot be compromised, clearly, since its need is recognized."[13] The federal government's responsibility to ensure the viability of the provincial governments rested on its ability to raise revenues and to spend them. Thus, while it was willing to

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12. Appendix B: "Proposals Adopted by the Conference," ibid., p. 547. The Conference agreed: "THAT a Continuing Committee of Officials be set up to assist the Constitutional Conference in its task. . . ." The CCO was given very broad terms of reference, however, it was specifically directed to set up sub-committees in seven areas: (a) official languages; (b) fundamental rights; (c) distribution of powers; (d) reform of institutions linked with federalism; (e) regional disparities; (f) amending procedure; (g) mechanisms of federal-provincial relations -- in other words, an examination into the question of whether there should be formal meetings of first ministers annually, et cetera.

13. Constitutional Conference: Proceedings, Second Meeting, Ottawa -- February 10-12, 1969 (Ottawa: Queen's Printer, 1969), p. 177.

share all tax fields with the provincial governments, it would not grant the provinces access to these other tax fields if this concession was made at the expense of limiting its own power to tax and hence to spend. British Columbia, on the other hand, insisted that the fields of direct taxation become the sole "possession" of the provincial governments.

Premier Smallwood, concerned with the possible effect that this proposal would have on the federal government's ability to assist the poorer provinces, stated:

> You [the federal government] cannot change your Constitution so as to limit you in the amount of revenue you can raise across Canada. And then, having raised it, use it. Use it not just for the normal conventional things, but to help us five Provinces, Prime Minister. Five of us: Quebec, . . . New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland; five of the ten. Help us. Help us to help ourselves.
>
> And there are so many ways of doing it. But it all costs cash. So don't cut yourself off from the chance to get the cash.[14]

None of the provincial leaders were willing to oppose the power of the federal government to aid in the development of the poorer regions, although the methods to be used were a topic of considerable debate. In discussing the federal taxing and spending powers, the wealthy provinces were put at a slight disadvantage. The provinces of Ontario, British Columbia, Quebec, and Alberta advocated that the provinces be given sufficient taxing powers to implement programmes based on each province's priorities. They argued that the division of powers ought to recognize the principle of equalizing expenditures with revenues. Their arguments were based on the concept of provincial autonomy.

> Are the Provinces to be simply administrative units? Are we just to function as administrators

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14. Constitutional Conference, February, 1969, pp. 176-77.

> with all the decisions made by the central government? Or are we to have a federal system in which political authority and political decision are to be left, at least to some degree, to the Provinces in order that they may define policy in the areas given to them by the Constitution?[15]

The differing tax capacities of the provinces resulted in lengthy debates concerning the distribution of taxing powers and the possibility of limiting the federal powers of taxation. With approximately one-third of federal revenues coming from income taxes, if these sources were relinquished to the provinces, the federal revenue reductions may have threatened policies of equalization and regional development. Moreover, while the Atlantic provinces would support a sharing of tax revenues, so long as equalization payments were maintained, their lower tax capacity meant that control of the direct tax fields would not be a great boon to them. If federal assistance to the poorer regions was threatened by any restriction of the federal taxing powers, the "have-not" regions would be compelled to support the federal position that their unlimited power of taxation be maintained.

While the use of the constitution to support regional development had not been clear during the first meeting, an idea was beginning to germinate by the February, 1969 Conference. At this time, it was suggested by the Nova Scotia delegation that provisions be placed in the constitution designed to promote the alleviation of regional disparities.

> We believe that the principle of equalization and the formula for it should be set out in the Constitution. There should be no arguing and bargaining for equalization from time to time. It should not depend upon the attitude or the whim of any particular administration at any given moment.
> . . . . . .

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15. Constitutional Conference, February, 1969, pp. 182-83.

> [Further] we hold that Canadians in every region of Canada clearly should have opportunities for their own all-round development, and to attain a standard of living reasonably comparable with the opportunities and standards of the average Canadian.
>
> We believe that this as a compulsory general objective of federal policies should be recognized by the Constitution. There should also be written in the Constitution a provision that the Federal Government must apply its fiscal monetary and economic policies. . . with due regard for the probable effect of each policy upon each region as is consistent with the overall objective of the policy.[16]

He went on to emphasize that the constitution should also guarantee that the federal government could enter into meaningful consultation with the provinces in areas that concerned the provincial governments. It was emphasized, however, that the federal commitment to regional development could not wait until a new constitution was agreed upon. Steps must be taken immediately to ensure that the gap between the regions was reduced, not widened.

The Nova Scotia proposal to place regional disparities in the constitution was not discussed at the Second Constitutional Conference. The meeting did, however, agree to sum up the debate in the following terms:

> 6. Regional Disparities
> (Agenda Item 4 (e))
> The Constitutional Conference agrees that:
> (a) the promotion of the full development of all parts of Canada is an essential objective of Confederation;
> (b) a Committee of Ministers should, taking into account the views and proposals of the various governments, consider the administrative, financial and consultative arrangements for policies and programmes required immediately to reduce regional disparities;
> (c) the Continuing Committee of Officials should give special attention to the

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16. Constitutional Conference, February, 1969, pp. 296-97.

> constitutional aspects of regional disparities, with a view to reporting to a Committee of Ministers as soon as possible.[17]

Although the constitutional issue was to become a major topic in the meetings which followed, the emphasis was still placed on the immediate steps necessary to reduce regional disparities.

A third open meeting of first ministers was held in December, 1969, and at that time, the existence of regional disparities affected the discussions of health and welfare. Apart from the problem of providing opportunities for provinces to "opt out" of national programmes, the differing tax capacities of the provinces and the diverse points of view between the "have" and "have-not" provinces with regard to the federal spending power were topics of lively debate. The desire to ensure a minimum national standard of "essential" services was expressed by most provinces. However, the method of attaining this objective was debated. Shared-cost programmes had been fraught with difficulties, and the heterogeneous concerns of the provinces, coloured by regional disparities, were presented. Some provinces were opposed to the very principle of shared-cost programmes; others felt that the federal power to make or withdraw from national programmes should be subject to provincial consultation and agreement. The discussions were complicated by the "built-in" equalization factor in the shared-cost programmes.

In an effort to reconcile the need for national programmes in certain health and welfare areas, and the desire of some provincial governments that they be allowed to "opt out" of any such programmes, the federal government proposed to refund a portion of the tax raised for the national programmes to individuals in non-participating

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17. "Conclusions of the Meeting," Constitutional Conference, February, 1969, p. 398.

provinces. The refund, however, would automatically redistribute incomes to some degree. Prime Minister Trudeau, explaining the proposal to the conference, stated:

> The Federal Government says, "Okay, we will help you by this national scheme which is desired by everybody. Within each province where the scheme applies, there is going to be a redistribution of benefits and certainly we are going to tax all rich Canadians, no matter where they are, a little more to help the less rich Canadians no matter where they are, even within the same province or in the province where the scheme applies." There is going to be some form of redistribution.

And, the Prime Minister went on, in cases where a province wished to remain out of a national programme, a bit of redistribution would still occur.

> [We] are saying to the citizens in these [non-participating] provinces: "Instead of using the national scheme within your province to redistribute welfare according to this national scheme. . . we will give the money back and the way we do this is to redistribute the income slightly from the rich to the poor. . . ."[18]

An important advantage of the shared-cost programmes to the poorer provinces lay in this "built-in" equalization factor. Premier Robarts, on the other hand, opposed these hidden costs of equalization.

> If we want to deal with equalization, let us deal with equalization as a payment by the central government to certain provinces to establish another level of income or whatever it is you want.
>
> . . . . . .
>
> We think it is a right principle, but we do object to what we are getting into here where you tax the province and then do not return it the amount you tax out of it because some of this money is going to pay for a programme in another province that that province does not want in its own province.[19]

Apart from "hidden equalization" in the shared-cost

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18. Constitutional Conference: Proceedings, Third Meeting, Ottawa -- December 8-10, 1969 (Ottawa: Queen's Printer, 1970), p. 163.

19. Ibid., p. 166.

programmes, the equalization principle was to be included in any new constitution. Both levels were to share direct and indirect tax fields, but the Parliament of Canada was to have "the explicit power to make equalization grants."[20] The connection between regional disparities and the division of powers, then, was borne out in many of the discussions. However, as a separate topic on the agenda at this meeting as well, it continued to evoke much discussion at the conference.

By this time, agreement had been reached "that it should be the policy of all governments in Canada, federal and provincial, to work towards a reduction of regional disparities"[21] in such areas as the provision of government services, levels of personal income and in balanced economic growth between the regions. Two questions remained, whether there should be a constitutional provision that the problem be redressed and the method of solving it. A number of positions emerged. The Maritime provinces pushed for a clause in the constitution which would impose obligation on governments (presumably the federal government) to resolve regional disparities. The federal government favoured a statement in the preamble to the constitution, which of course would not have any legal standing. A third position was that of Alberta and British Columbia which favoured a constitutional provision referring to equality of opportunity for all Canadians. This latter policy shifted the emphasis from regional equality to that of individual equality.

The federal government had serious reservations about including a "duty" to eliminate regional disparities in the constitution. Referring to the discussions held prior

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20. Trudeau, Constitutional Conference, December, 1969, p. 170.

21. Ibid., p. 185.

to the December meeting, Trudeau noted:

> We believe the Constitution should give the various governments this right, this possibility, of reducing disparities, but we did not, as far as we [the federal government] are concerned, arrive at any way in which we could write into the Constitution an obligation to do so.[22]

The fear expressed by the federal government and some provincial governments was that the primacy of Parliament would be threatened by court action if the reduction of regional disparities was put into the constitution as a "duty." Premier Smith, however, believed that such a constitutional obligation, phrased in such a way so as to avoid it becoming a legal question, was both necessary and desirable.

> Today it seems to be generally accepted throughout the country and by governments themselves that governments have the responsibility by way of duty to assist citizens to adequately resolve social and economic problems and help him meet his needs.
>
> If this is accepted. . . then we submit it is not sufficient simply to confer powers on one or another level of government. We submit that in a new constitution in addition to stating the goal and providing the powers to achieve those goals it should provide the obligation to endeavour to seek attainment of the objectives or the goals.[23]

The Premier of Nova Scotia suggested a "model" constitutional provision referring to the obligation of the federal government to make payments to the poorer provinces in order to provide a national standard of public services without a heavier than national average tax burden. The provision also made it a governmental obligation to encourage regional economic development.

> The Parliament of Canada shall from time to time in such a manner as it deems proper provide for:
> (1) The payment to a province or provinces of such sums of money as may be required to enable the

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22. Constitutional Conference, December, 1969, pp. 185-86.

23. Ibid., pp. 186-87.

> province or provinces to provide a standard of public services equal to the national average standard without a burden of taxation being imposed on the people of the province or provinces which is greater than the national burden.
>
> . . . . . .
>
> (2) Measures to promote economic development in a province or provinces or region or regions so as to ensure standards of economic well-being and equality of opportunity exist in each region of Canada which are as nearly as practicable comparable to the standard of opportunity in other regions.[24]

The reaction of the other provinces to the two positions -- a general statement in the preamble, or a constitutional provision ensuring that the elimination of regional disparities would be a governmental obligation -- was a mixed one. Premiers Schreyer and Robichaud supported the Nova Scotia position. British Columbia and Alberta advocated a minimum national income approach as the means of reducing regional disparities. A consensus had not been reached by the end of the discussion, and the matter was left for the time being.

Saskatchewan was far less interested in drawing up a new constitution than with dealing with "bread and butter" issues. In the middle of the debate on how the constitution would recognize regional disparities, Premier Thatcher took aim at federal policies which, he claimed, encouraged regional underdevelopment in the West. In particular, he emphasized the discriminatory nature of freight rates, and rebuked the new Department of Regional Economic Expansion for its concentration in Eastern Canada.

> The Saskatchewan Government would like to remind the Honourable Mr. Marchand that all the problems [related to regional disparities] are not just east of Three Rivers. We have got some in Northern Saskatchewan and elsewhere.[25]

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24. Constitutional Conference, December, 1969, pp. 187-88.

25. Ibid., p. 192.

While he supported the concept of a department designed to help underdeveloped areas in their efforts to industrialize, he emphasized that the freight rate structure was a "major roadblock," and was impeding the effectiveness of DREE's attempts to deal with economic problems.[26] Premier Smallwood resumed the discussion of constitutional reform, but rose to the defense of the Department. Mr. Marchand also attempted to fend off the attack.

> [With] respect to Mr. Thatcher, I certainly am not of the opinion that the only Canadian regions to be taken care of are those located east of Trois-Rivières. I believe that there are regions that are more or less in a bad way, and we must, obviously, establish some order for our action.[27]

British Columbia also entered into the discussion at this point, with Attorney General Peterson noting:

> [After] hearing Mr. Marchand's statement, [and] in keeping with some of the remarks that have already been made at this Conference we should consider the question of regional disparities for it is not only the slow growth areas that have disparities but also . . . there are problems related to disparities in the rapid growth areas and British Columbia occupies that position at the moment as I believe it is, the number one growth area in Canada.
>
> . . . . . .
>
> . . . I think there should be some flexibility in terms of providing assistance in meeting the problems that we have to meet in the growth areas in the country as well as in other areas.[29]

Alberta's Premier, Mr. Strom, expressed the opinion that areas of underdevelopment in his province be considered as well: "[W]e in the "have" provinces still have pockets that I believe are just as much in need of some programme of help as those that are counted as "have-not" provinces."[29] The conference ended with an agreement to disagree on the

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26. Constitutional Conference, December, 1969, p. 193.

27. Ibid., p. 204.

28. Ibid., pp. 205-206.

29. Ibid., p. 211.

topic of regional disparities.

> It was recognized that both levels of government had responsibility for the achievement of this goal and that each should have appropriate powers for this purpose. Eight provinces and the Federal Government agreed that the Federal Government should have the power to alleviate regional disparities in relation to the income of individuals, inequality of economic development and standards of public services. British Columbia and Alberta advanced the view that, instead, a guaranteed annual income would remove disparities between individuals wherever they might be in Canada and therefore the effect would be to lessen regional disparities.[30]

The overall discussion, then, indicated that the existence of regional economic and social differences resulted in varying conceptualizations of how these diversities could be reduced. The emphasis by each province on the methods to be used -- equalization payments to provinces, payments to individuals, concentrating on all pockets of economic stagnation, or just the most extreme cases -- depended on the circumstances facing the individual provinces. The heterogeneous nature of the federation and the need to emphasize the "peculiar" circumstances to be considered in each case, resulted in the discussion of economic and social disparities digressing from the subject of constitutional reform to that of "special" considerations to be taken into account. This is reminiscent of many previous federal-provincial meetings.

The extensive series of meetings between the two levels of government, of department officials, ministers, and first ministers, culminated in June, 1971 in Victoria. Much of the background work on the drafting of the constitutional reforms had been done prior to the Conference. Nevertheless, a few contentious issues were left for resolution at Victoria. It had been recognized that, unless some

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30. "Conclusions of the Meeting," Constitutional Conference, December, 1969, p. 245.

progress was made on a new constitution, the leaders of many of the provinces, and the Prime Minister, would not enter into further negotiations. It was emphasized by the Premiers of British Columbia and Saskatchewan[31] that the question of constitutional reform was not as pressing an issue as other problems, and they implied that they would not be willing to take the time to meet further on the matter. There was also a feeling that the Conference would have to show some measure of success to the people of Canada if further meetings were to be held.

The opening statements of the first ministers were, on the whole, more specific than usual -- the Premiers hit hard on the issues they felt most strongly, realizing that this was very likely the last opportunity they had to affect any changes. The specific priorities of the various governments were presented by the leaders. The Atlantic Premiers and the Premier of Saskatchewan supported a strong central government which would have a constitutional obligation to aid the poorer provinces in the areas of economic and social development. This position was supported by some of their colleagues, and ignored by others. Prime Minister Trudeau confirmed the federal position that the reduction of regional disparities was a worthy commitment for both the central and provincial governments. Basically, the governmental positions adopted at financial meetings and at the constitutional conferences, were once again presented. The wealthy provinces criticized federal policies

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31. Premier Bennett stated: "At these [Constitutional] conferences, British Columbia has emphasized that the Constitution is not the number one priority facing this nation." Premier Thatcher's representative, Attorney General D. V. Heald stated: "We repeat the position taken by Premier Thatcher at the earlier conferences that there are problems facing our people which have, in our judgement, a far greater priority than constitutional reform." Constitutional Conference: Proceedings, Victoria, British Columbia, June 14, 1971 (Ottawa: Information Canada, 1971), pp. 6, 37.

and the poorer provinces supported them. Occasionally, constitutional questions were discussed. While all recognized the general problem of poverty, the solutions presented depended upon the perspective of a particular province. Achieving a consensus would be difficult. Premier Bennett headed the attack on specific federal policies which had been initiated to reduce regional disparities.

> A few years ago the term "co-operative federalism" was in vogue. Today the term "profitable federalism" is appropriate to describe the treatment received by some Provinces. British Columbia does not ask for special treatment, but does expect to receive fair treatment at the hands of the Federal Government.[32]

He went on to indicate the two areas where he felt British Columbia was being unfairly treated. The first was in the area of equalization payments.

> British Columbia calls for the abolishment of equalization payments to Provincial Governments and advocates a revision to the Constitution, if necessary, to provide for a national administered guaranteed annual income in the place of present welfare programmes and equalization payments. . . .[33]

The second area in which Premier Bennett felt British Columbia was being short-changed was the federal programmes of regional economic development. Premier Strom, as he had in earlier meetings, sympathized with his Western colleague's emphasis on the individual.

> [We] believe that the government policies must deal with individuals not with artificial regions. A Canadian is a Canadian wherever he lives. It hurts just as much to be poor in Alberta as it does to be poor in any other part of Canada.[34]

Concern of the "paying" provinces with increasing equalization payments continued to be a major issue at the conference.

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32. Constitutional Conference, June, 1971, p. 7.

33. Ibid., p. 8.

34. Ibid., p. 43.

Ontario's opposition to the equalization factor in shared-cost programmes was once again presented. The position of the wealthy provinces was partially explained by the fact that they received neither equalization payments nor much from DREE. A guaranteed annual income plan, or something like that, meant that funds would go into their provinces, funds which they could tap. The poorer provinces, while not opposed to this approach, were faced with a dilemma that this proposal would still leave their governments short of money. While their economies might benefit from the greater purchasing power of their citizens, there was no way of knowing whether this additional wealth would generate sufficient taxes to support these governments.

Thus, the poorer provinces countered by expressing their belief that a strong central government was vital to the Canadian federation. It was their view that the federal government was the only body that could redress the imbalances between the regions. They did not argue against a guaranteed annual income plan *per se* but asserted that equalization payments and federal programmes aiding regional expansion were both necessary and *right*. Premier G. A. Regan, the new Premier of Nova Scotia, took Premier Bennett to task concerning equalization and regional expansion policies.

> We want to point out to the genial Premier of British Columbia the fact that the reason that we qualify to receive and deserve equalization payments, and the reasons necessary to have policies to combat regional disparity can be found . . . in the tariff policies of the past.
>
> . . . . . .
>
> We do feel that we have every justification for relying on the basic historic policies of the central government for payment, not only to individuals to offset regional disparity, but also to provincial governments, so they can provide the level of services that our people as Canadians should be able to receive.[35]

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35. *Constitutional Conference, June, 1971*, p. 23.

This commitment was to be written in the new constitution. Premier Hatfield stated:

> We seek a Constitution without ifs or buts on federal power to ensure acceptable standards of services in our Province and without ifs or buts on federal power to provide us with the policies and remedies so clearly required to meet our unique problems; we seek a clear commitment to the alleviation of regional disparity as a national objective.[36]

Whether the Premiers from the Maritimes supported a general statement outlining the goal of alleviating regional disparities in the preamble, or whether they demanded that both the objective and obligation be included, the sentiment remained the same -- the federal government was obliged to redress the situation of regional imbalance in the federation.

The next two days of _in camera_ sessions culminated in the presentation to the people of Canada of the Victoria Charter, a partial draft of a new Canadian Constitution. A compromise on the clause relating to regional disparities was finally reached. The governments agreed that a provision would be made expressing the moral obligation of the governments to reduce the gap between the "have" and "have-not" provinces. It was qualified, however, to allay the fears of the governments that such a provision might increase federal powers. Part VII of the Victoria Charter, which deals exclusively with regional disparities, reads as follows:

> Art. 46. The Parliament and Government of Canada and the Legislatures and Governments of the Provinces are committed to:
> (1) the promotion of equality of opportunity and well being of all individuals in Canada;
> (2) the assurance, as nearly as possible, that essential public services of reasonable quality are available to all individuals in Canada; and
> (3) the promotion of economic development to reduce disparities in the social and economic opportunities for all individuals in Canada wherever they may live.

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36. _Constitutional Conference, June, 1971_, p. 28.

> Art. 47. The provisions of this Part shall not have the effect of altering the distribution of powers and shall not compel the Parliament of Canada or the Legislatures of the Provinces to exercise their legislative powers.[37]

The fear that the federal government might be tempted to use their taxation and spending powers to invade provincial jurisdictions in fulfilling the obligation of reducing regional disparities, and the danger of provinces appealing to the courts to secure their rights were overcome by the qualifying clause found in Article 47. British Columbia's concerns were met by the first clause referring to equality for all individuals throughout Canada.

The usefulness of the proposed constitutional provisions can be questioned. If the governments were not legally bound to reduce economic and social disparities, of what use was the inclusion of the obligation in the constitution? The justification is that such a clause focuses attention on the problem, and indicates a commitment on the part of both levels to achieve a solution to the problem of regional disparities. The reduction of regional disparities had become a definite national goal and by stating this objective in the fundamental law of the land, the poorer regions were given some political leverage when presenting their claims.

The Victoria Charter was rejected by the Province of Quebec, thus arresting further negotiations. The procedure and discussions surrounding the topic of constitutional reform reveal a number of problem areas surrounding the subject of regional disparities and its effect on the federal system. It is clear that the economic and social circumstances facing the individual provinces and regions of Canada influenced the positions put forward on topics such as taxing

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37. "Canadian Constitutional Charter, 1971," Appendix B, Constitutional Conference, June, 1971, p. 63.

powers, the spending power of Parliament, shared-cost programmes, et cetera. The discussions of regional disparities and related topics of equalization payments, federal regional expansion policies and built-in equalization in the shared-cost programmes, illustrated the diversity of opinion over how the problem could be resolved. Moreover, the degree of concern shown by the individual governments over the topic led to widely differing proposals for the constitutional resolution of the problem with suggestions ranging from no provision, to a statement in the preamble, to specific provisions expressing both the objective and obligation of governments to reduce the imbalance between the regions. Nova Scotia had even gone so far as to attempt to include the principle of equalization payments in a separate provision, thus ensuring its continuation. Regional disparities, then, emphasized the differences between the provinces. But more than that, it also, in some cases, seemed to give the federal government an edge in the discussions, for the lack of unanimity among the provinces resulted in the central government being able to play the poorer and wealthier provinces off against one another. While both the "have" provinces, and Quebec (whose strong provincial autonomist stand aligned her with these provinces) opposed the unlimited powers of the federal government, the "have-not" provinces would not accept any diminution of the federal powers for fear that the central government's ability to aid their development would be curtailed.

CHAPTER VI

CONCLUSIONS

The dilemma of regional disparities remains. From the Confederation settlement to today, provinces have individually and collectively attempted to achieve better terms or to improve their positions in the federal system.

In federal-provincial negotiations on the issue, certain themes have become obvious. The most apparent of these is the different perceptions the "have" and "have-not" provinces hold about the problem. As such, one finds Ontario (a region) and British Columbia (a region) adopting a parsimonious view towards the resolution of this dilemma. As "paying" provinces, they have viewed with some reluctance the increasing funds funnelled into the poorer regions by the central government. The Maritime provinces, which have been identified as a region, and which have been continuously poorer relative to the "have" provinces, have perpetually sought to improve their relative position in the federation. Quebec (a region), which has benefitted from many of the federal policies discussed in this study, has been preoccupied with the preservation of her cultural values, and argues for provincial rights and independence regardless of her poorer economic position. The Prairie provinces, the fifth region, are in a difficult position since they most closely conform to the national average. Neither poor nor rich, when compared to their Confederation partners, they have argued the disparity issue more from the perspective of the uneven impact of federal policies than from a "provincial autonomist" or "have-not" position. Their demand

for "fair" treatment has been voiced unhesitatingly at federal-provincial meetings.

It should be emphasized that, no matter how much one talks about regional disparities, or the concept of region, be it on a sub-provincial, supra-provincial, or region-equals-province level, one cannot escape the realities of political boundaries in Canada. The existence of two levels of government in a federal system enhances the importance of individual governments in negotiations at the federal-provincial level. Thus, the resolution of regional disparities, which is usually taken in an economic context, must in some way correspond with provincial boundaries, regardless of the economic merits of this approach. Given the responsibilities of each level, efforts to resolve regional disparities are usually made at the federal -provincial level. While frequently differing claims, and arguments to support these claims, are both regional and provincial, regional expressions of these claims are still made by provincial leaders.

The relationship between the provinces and Ottawa clearly varies according to their relative economic position in the federation and has resulted in a "have" versus "have-not" rivalry. The "have-not" provinces, with their lower tax capacity, are more reliant on assistance from the central government than the "have" provinces. They view a strong federal government as a prerequisite to their own viability as provincial governments. The heavy dependence on federal policies, designed to ensure that all provinces have the financial means to provide government services to their constituents, has resulted in the poorer provinces being antagonistic to any proposals which could limit the central government's power to redistribute the national wealth. The "have" provinces, on the other hand, with a much greater tax capacity, see Ottawa more as a competitor for "finite" revenue sources. Their potential capacity for independent

action has led them into open conflict with the federal government over the control of the tax fields, and in particular, the income tax sources. In debates over tax sharing, the "have-not" provinces have also claimed the need for more revenues -- the difference is that they have asked for tax revenues plus additional assistance.

The poorer provinces see federal transfers as being a perfectly legitimate function of a national government, and see the redistribution of national wealth through the federal government as an important aspect of Confederation. The wealthy provinces view these transfers from a different perspective. To them, the "national" wealth collected by the federal government for the purposes of equalization, is really their money being siphoned off. The redistributive function of the federal government is viewed with a certain amount of chagrin; "their" money ought to be spent for the benefit of "their" citizens. And, while they reluctantly concede that a certain amount of equalization is necessary, they have been increasingly alarmed and concerned over the mounting costs of equalization and regional development policies.

Another form of rivalry which "plagues" the Canadian federation is one which is of a more regional character and relates to perceptions of the impact of federal policies. The comparison by provincial governments of their position in the federation is often made according to a "West," "Centre," "East" division. Thus, the Prairie provinces speak of "western alienation," and compare their position with that of Central Canada. Federal policies, they claim, benefit Ontario and Quebec, and impede the economic development of the West. Furthermore, they do not receive any recognition of this problem through equalization and regional economic expansion policies as the "East" does. The "East," the Atlantic provinces, compares its position with Central Canada and the "West." As "low man" on the

totem pole, the Maritimes view their position as being "odd man out" when it comes to the benefits of Confederation. This regional rivalry is most often used in discussions of national economic policies. National economic policies from the earliest days, with the National Policy which integrated the regional economies through to today, have benefitted the regions unevenly. Central Canada, a title which emphasizes not only the central geographic position of Ontario and Quebec, but also their position as the hub of Canada's social and economic life, has been seen as the chief beneficiary. The demand, by both the "West" and "East," that this "unfair" treatment be arrested has been one of the recurring themes at federal-provincial conferences.

Another consequence of the different interests of the provinces and regions of Canada is found in the various proposals espoused by the governments to solve the problem of regional disparities. The poorer provinces, unable to raise sufficient funds due to their restricted tax base, favour the approach of federal transfers to provincial governments. The monies flowing into these areas via equalization payments, special grants, shared-cost programmes and federal economic development policies are all acceptable to them. While they may, at times, complain of the lack of federal consultation with the provincial governments, they would not oppose any of these means being used to reduce economic and social disparities. The rich provinces, on the other hand, can afford to place a higher value on the principle of provincial autonomy, and since they do not benefit from regional policies when "region" is equated with province, advocate either a sub-provincial, or payments-to-individuals approach as being the proper solutions to regional disparities. Rather than accepting national programmes through shared-cost arrangements, they would prefer tax equivalents or a greater share of the tax sources.

The federal government, then, has found it necessary

to placate the demands of both the "have" and "have-not" provinces through a variety of policies and programmes. Shared-cost programmes in the health and welfare services, for example, have been developed to ensure that a national minimum standard of essential services will be provided to citizens in all parts of Canada. These plans usually have an equalization component, from which the poorer provinces derive additional benefits when measured on a per capita basis. A policy of equalization payments has also been established to provide the poorer provincial governments with the revenues necessary to meet their constitutional obligations. To pacify the richer provinces, larger shares of the income tax fields have been granted to the provincial governments.

The federal government has also attempted to overcome regional disparities through a series of specific measures. Programmes such as those found in the Department of Regional Economic Expansion -- the Area Development Agency, the Fund for Rural Economic Development, and the Agricultural Rural Development Act, have been applied on a sub-provincial level, and while the efforts have concentrated in the Atlantic region and eastern Quebec, the programmes have been expanded to ensure a little for each province. Even here though, one finds that programme success is to a great extent influenced by federal-provincial cooperation.

It would be very doubtful if in any political system regional economic and social differences could be entirely eliminated. For example, the variation in the distribution of natural resources among regions creates economic imbalances which leads to a political problem. Nevertheless, while differences may always be present, the "width" of the gap between regions may be reduced by man's efforts. The problem is, are existing policies adequate in the light of the varying interests and needs of the provinces and regions of Canada? Successive governments have attempted to find means of reducing the gap between the

"have-not" and "have" provinces. The dissatisfaction of the provinces with existing programmes is confirmed by studying the differing claims and proposals presented by the provincial governments. Moreover, the tolerable limit for disparities varies from province to province.

The different positions which have been voiced by the provinces, and the "alliances" between several of the provinces have become, in recent years, almost a tradition. It would appear that no single solution, which has been presented up to now, overcomes the problems which have been raised at federal-provincial conferences. While one might argue that the Victoria Charter reflected a consensus, how its provisions would be implemented were by no means certain since governments were not required to act. The Charter did not give a specific solution and provincial pressures would still be necessary to secure federal assistance. What form this assistance might take will largely depend on both economic and political considerations.

The arguments presented by the various governments are largely economic, since economic disparities are usually the topic of discussion. When governments base their arguments on economic premises, it is difficult to accuse them of basing their reasoning on strictly political lines. But it should be recognized that each provincial government is also attempting to maximize its political position by delivering better services. For example, one justification frequently used by most of the underdeveloped provinces in requesting federal efforts to reduce regional imbalances is that the federal tariff, transportation and fiscal policies have imposed economic hardships on their region. These factors have been seen as major impediments to individual regions' attaining their share of economic growth. Furthermore, the governments have argued that the national economy will benefit in the long run when the "have-not" provinces have become self-sufficient. While economic in content, the

political dimension of these arguments cannot be overlooked.

The guaranteed minimum income plan proposed by British Columbia and Alberta has been justified by the argument that equality of opportunity of all Canadians can only be achieved on the individual level, not through payments to provincial governments. The Prairie provinces and British Columbia also demand "fair" treatment -- the federal policies should not have an uneven impact on the regions of Canada. Here, one must ask, who benefits from these proposals? The wealthy provinces receive nothing from equalization payments and very little from the present regional expansion policies. Their alternatives would result in federal funds flowing into their provinces. Ontario, too, bases her claims on economic terms. Her concern is that there ought to be a limit to equalization (a programme from which she receives no benefit) on the grounds that at some point, the economies of the paying provinces will be adversely affected. Quebec, concerned with cultural matters, has benefitted from many of the federal programmes, and, despite her provincial autonomist perspective, accepts the funds so long as they do not interfere with the ability of the province to act in her own best interests. For this reason, she pushed for opting-out provisions in shared-cost programmes. By this method, she received federal funds, yet was able to set up her own programmes.

While the negotiations and proposals are couched in economic terms, politics governs the solution to regional disparities. Attempts to find a solution are politically motivated. In addition to "non-partisan" economic arguments, the governments also use the argument of national unity as a justification for presenting many proposals at federal-provincial meetings. The issue of regional disparities is no exception. The claims made by the "have-not" provinces on the right of all Canadians to a national standard of essential services, are often based on the premise that

national unity may be threatened if the gap between the "haves" and "have-nots" is not reduced. It is an emotional appeal to a sense of "fair play." This same premise is used to justify the Western claims that the uneven impact of federal policies be rectified.

The federal system presents a dilemma. The federal government cannot wipe out disparities with a single stroke of the pen. To do so would place the continuation of the federal system in jeopardy: objections would immediately arise in Quebec and Ontario, and indeed in all provinces. The sharing of powers and responsibilities between the federal and provincial governments must be respected, as must the autonomy of the provincial governments. The federal government, responsible to all people of Canada, must recognize the interests of all regions and as a result must compromise between conflicting interests.

As such, there is no fixed or absolute solution to regional disparities, only approximate ones. Temporary solutions or attempted solutions have been initiated in response to a number of motivations, including both the altruistic desire to see all Canadians share in the general prosperity of the nation and political expediency. For example, would the Western Economic Opportunities Conference have been convened if the Trudeau Government had won more seats in the West in the 1972 general election? Would the 1926 Royal Commission on Maritime Claims have been appointed if Prime Minister King had not been in a minority government? The equalization payments plan which had been suggested in 1955 did not go into effect until 1957, the same year Prime Minister St. Laurent called an election. Political realities must be taken into account. It is clear, however, that whether the motivation behind the search for solutions to the problem of regional disparities stem from altruism or political expediency, the search will continue, and it is also clear that the dilemma of regional disparities will continue to be a political football for years to come.

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